



Safety
Matters @Work
Workers Compensation Board of PEI



Workers Compensation Board of PEI

2013

Annual Report





www.wcb.pe.ca

Letter of Transmittal



www.wcb.pe.ca

April 30, 2014

Hon. Janice Sherry
Minister of Environment, Labour and Justice
Fourth Floor, Shaw Building South
95 Rochford Street
P.O. Box 2000
Charlottetown, PE C1A 7N8

Dear Minister Sherry:

In accordance with Section 34 of the *Workers Compensation Act*, the Board is pleased to provide its Annual Report for the year ending December 31, 2013.

Respectfully submitted,

Nancy Guptill
Workers Compensation Board Chair

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The Workers Compensation Board of Prince Edward Island

The Workers Compensation Board (WCB) has been an integral part of the Island community since 1949. We serve over 70,000 workers and approximately 5,000 employers through the fair and effective administration of the provincial workplace compensation and safety system.

Our Mission

The WCB exists to protect workers and employers through a sustainable no-fault injury insurance program by caring for injured workers, promoting safe and healthy workplaces and enforcing safety legislation.

Our Vision

Workplaces are safe. Injuries are eliminated. Service excellence is assured.

Our Values

Integrity We honour and are accountable for our commitments to our stakeholders and each other by operating in an open and transparent manner and being responsible for our actions and performance.

Fairness Our work focuses on the needs of our stakeholders and a balance of both worker and employer interests. We consistently apply legislation and policy.

Professionalism We strive for excellence in all aspects of our service delivery. We interact in a respectful, competent and efficient manner. We possess the knowledge, skills and attitudes that foster confidence in our stakeholders.

Teamwork We build a collaborative culture by supporting each other; sharing ideas, opinions, and strengths; and sharing responsibility and leadership to meet our common goals.

Strategic Themes for 2013-2015

To meet and exceed the workplace safety and compensation needs of all Islanders, we have focused our efforts around five strategic themes...

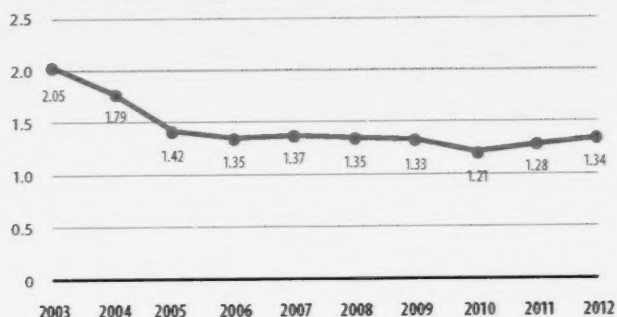
- Safety Culture
- Return to Work Culture
- Service Excellence
- Collaboration
- Engagement and Communication



Statistical Highlights

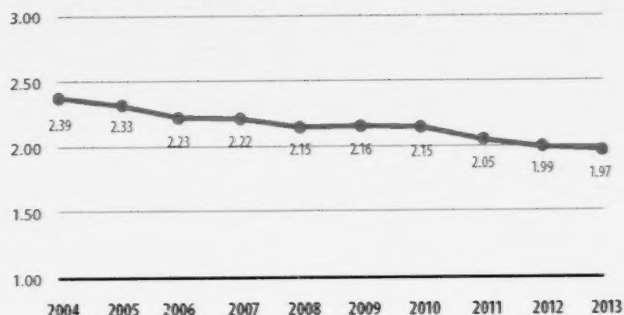
Safety Culture: Injury Frequency Rate, 2003-2012

(Number of time loss injuries per 100 workers)



Average Assessment Rate, 2004-2013

(\$ per \$100 of assessable payroll)



Funded Position (Percentage)

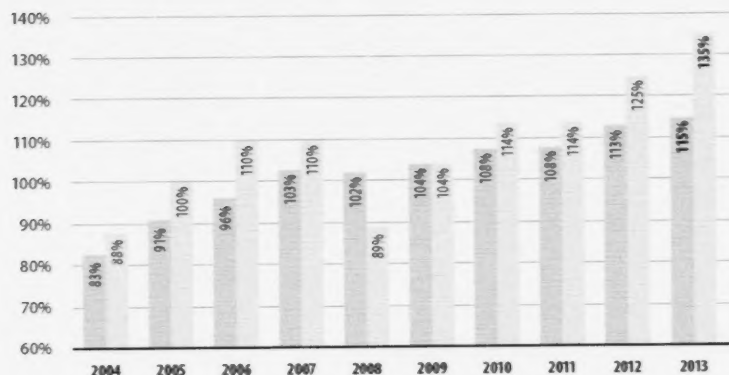
Investment Returns – Smoothed

Recognizing gains and losses of investments over five years rather than recording them entirely in the year they occur.

Investment Returns – Fair Market Value

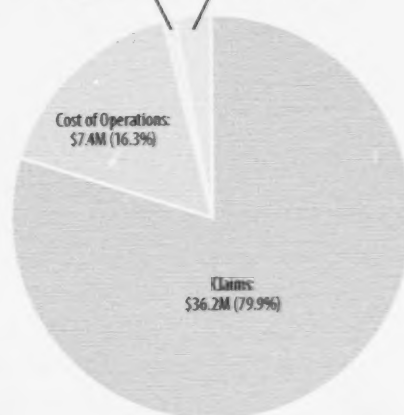
Recognizing gains and losses of investments in the year they occur.

Smoothed
Fair Market Value



Allocation of Expenses, 2013

Appeals Tribunal and Advisors: \$0.4M (0.9%)
Other: \$1.3M (2.9%)



Financial Highlights, 2013/2012

| Financial Highlights | 2013 | 2012 |
|--|-------|-------|
| Assessment Revenue (\$ millions) | 35.0 | 33.4 |
| Investment Revenue (\$ millions) | 29.0 | 17.7 |
| Claim Costs (\$ millions) | 36.2 | 26.6 |
| Administration Expenses (\$ millions) | 7.8 | 7.8 |
| Surplus (Deficit) (\$ millions) | 20.5 | 17.3 |
| Fund Balance (\$ millions) | 58.9 | 38.4 |
| Market Rate of Investment Returns (%) | 15.73 | 10.89 |
| Smoothed Rate of Investment Returns (%)* | 8.17 | 5.79 |

*Under the smoothing method, gains or losses realized on disposal of fixed term income are deferred and amortized on a straight line basis over a nine year period. Realized and unrealized gains and losses on equity investments are deferred and amortized on a straight line basis over a four year period.

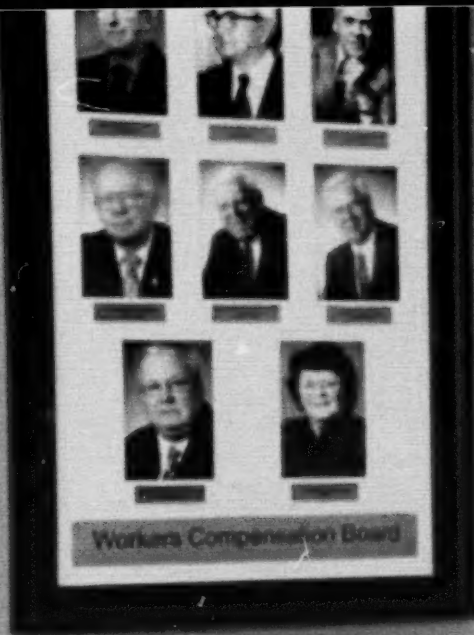




Together

we can eliminate workplace injury.

Governance and Oversight



Nancy Guptill
Workers Compensation Board Chair
Présidente du conseil d'administration de
la Commission des accidents du travail

Perspectives from the Chair

When I look back in 2013, I feel fortunate to have had the opportunity to contribute to our workplace safety and compensation system...a system that is integral to the fabric of Island life. I am particularly thankful that in 2013, as a result of the safety efforts of Island workers and employers and the support of the WCB, there were fewer claims for workplace injury. Most importantly, there were no claims for workplace fatalities on Prince Edward Island this past year. There is much work ahead before all workplace injuries are eliminated and this is the driving force behind all that we do at the WCB. I am pleased to share highlights from four of the Board's key activities in 2013, in the areas of governance, risk management, legislative review and strategic planning.

Message de la Présidente

En 2013, j'ai eu le grand plaisir de contribuer au système d'indemnisation et de sécurité en milieu de travail – un système qui fait partie intégrante de la vie insulaire. Je suis particulièrement reconnaissante des efforts déployés par les travailleurs, les employeurs et la Commission des accidents du travail, car les demandes d'indemnisation d'accidents du travail ont diminué en 2013. Plus important encore, aucun accident mortel survenu en milieu de travail n'a fait l'objet d'une demande à l'Île-du-Prince-Édouard. Il y a tout de même beaucoup à faire pour éliminer les accidents qui surviennent au travail; voilà ce qui guide toujours le fonctionnement de la Commission des accidents du travail (CAT). C'est avec plaisir que je vous fais part des activités principales réalisées en 2013 par le conseil d'administration dans les domaines de la gouvernance, de la gestion des risques, des dispositions législatives et de la planification stratégique.

Governance Review

As governors, we are responsible to ensure that the organization is accountable and that good governance structures around organizational direction and performance are put in place. To be effective governors we must lift ourselves above the day-to-day operations of the business to provide oversight from a system-wide perspective.

In 2013, with the guidance of a governance consultant, the Board undertook a comprehensive review of our governance policies. The review enhanced our understanding of our roles and allowed us to critically examine our current governance policies and practices. As a result of the review, we strengthened our governance policies and will continue to review these policies going forward to ensure we have the capacity and the information required to set the direction and goals of the organization.

Risk Management

One of the Board's most important governance responsibilities is to secure the future of the system. To ensure we earn the trust and confidence of our stakeholders, we must effectively anticipate and manage enterprise risks, putting the appropriate mitigating strategies in place. As a Board, we are responsible for a multi-million dollar budget which requires sound fiscal management. As guardians of the accident fund, we need to ensure that compensation is available when workers need it and that the system is affordable for the employers who fund it.

Our risk management strategies must always take into account events that can have an impact on Prince Edward Islanders. This is why it is particularly important to cap expenditures, develop budgets and manage investments with foresight and due diligence. In 2013, we focused on security in our enterprise risk management activities to put even more checks and balances in place. One example is the enhancement of our fraud prevention policy to protect the integrity of the workers compensation system and to strengthen accountability in all areas of the organization.

Legislative Review

The foundation of the WCB is the legislation it administers, which must remain relevant and responsive to Island workers, employers and their workplaces. In 2013, the Board was pleased to see amendments to the *Workers Compensation Act* pass in the Legislature: injured worker benefits were enhanced and the sustainability of the system was strengthened. The amendments reinforced the

Examen de la gouvernance

En tant qu'administrateurs, nous devons veiller à ce que l'organisme soit imputable et que de bonnes structures de gouvernance soient mises en place pour guider le rendement de l'organisme. Pour assurer une direction efficace, nous devons aller au-delà des activités quotidiennes de l'organisme et superviser l'ensemble du système.

Avec l'aide d'un conseiller en matière de gouvernance, le conseil d'administration a entrepris un examen approfondi de ses politiques en 2013. L'examen nous a permis de mieux comprendre nos rôles et de tourner un œil critique vers nos politiques et pratiques actuelles en matière de gouvernance. À la lumière de cet examen, nous avons renforcé nos politiques de gouvernance et continuerons de les réviser afin d'assurer que nous avons la capacité et l'information requises pour établir l'orientation et les objectifs de l'organisation.

Gestion des risques

L'une des responsabilités des plus importantes du conseil d'administration en matière de gouvernance est de veiller à la durabilité du système. Afin de gagner la confiance des parties prenantes, nous devons cerner et traiter les risques éventuels de l'organisation et instaurer de bonnes stratégies d'atténuation. Le conseil administre un budget de plusieurs millions de dollars et doit donc exercer une bonne gestion financière. Puisque l'ensemble des cotisations et investissements des employeurs relève du conseil, ce dernier doit faire en sorte que les indemnités soient disponibles lorsque les travailleurs en ont besoin et que le système soit rentable pour les employeurs qui le financent.

Nos stratégies de gestion des risques doivent toujours tenir compte des facteurs qui peuvent avoir une incidence sur les Insulaires. C'est pourquoi il est si important d'être prévoyant et diligent lorsque vient le temps de limiter les dépenses, d'élaborer les budgets et de gérer les investissements. En 2013, nous avons mis l'accent sur la sécurité; nos activités en matière de gestion des risques ont surtout visé à instaurer de meilleures mesures de contrôle. Nous avons notamment amélioré notre politique de prévention des fraudes pour protéger l'intégrité du système d'indemnisation des accidents du travail et renforcer l'imputabilité à chaque niveau de l'organisation.

Examen législatif

Le cadre législatif administré par la CAT doit rester pertinent et adapté aux besoins des travailleurs et employeurs de l'île ainsi qu'à leurs milieux de travail. En 2013, le conseil était heureux d'apprendre que les modifications à la *Workers Compensation Act* (loi sur les accidents du travail) avaient été acceptées. Ces modifications ont permis d'améliorer les prestations à l'intention des travailleurs blessés et de renforcer la durabilité du système. Fondées sur les principes de Meredith, qui guident tous les régimes

Safety Matters @Work

Compensation Board of PEI

Promoting
safe workplaces
island wo

WCB Chair Nancy Guptill with
2013 Safety Matters Award winner
Nikki MacEwen and WCB Youth
Education Consultant Clare Waddell.

On aperçoit Nancy Guptill, présidente de
la CAT, en compagnie de Nikki MacEwen,
récipiendaire du prix Safety Matters
2013, et de Clare Waddell, conseillère en
éducation à la jeunesse pour la CAT.

Meredith principles, which are the underpinning of all Canadian workers compensation systems, while maintaining an affordable system for employers.

The amendments were the product of a challenging and exciting review process which was centered around stakeholder feedback and consultation. The review committee consisted of former WorkSafeNB CEO Douglas Stanley, and WCB Board members Margaret Stewart and Mike Annear, who represent worker and employer interests respectively. The committee took a fair and balanced approach to recommend legislative amendments, building on the foundational work done in 2007. The WCB's strong financial position made it possible to increase worker benefits, while at the same time providing employers with a substantial average rate decrease.

Strategic Plan

In 2013, we solidified our governance and legislative foundations, which allowed us to set our sights on the future. I believe that

d'indemnisation des accidents du travail du Canada, les modifications permettent également de maintenir des coûts abordables pour les employeurs.

Le processus de modification a été stimulant et intéressant. Il visait surtout à consulter les parties prenantes pour tenir compte de leurs commentaires. Le comité de révision était formé de l'ancien directeur général de WorkSafeNB, Douglas Stanley; de Margaret Stewart, membre du conseil d'administration de la CAT, qui représentait les intérêts des travailleurs; et de Mike Annear, également membre du conseil d'administration, qui représentait les intérêts des employeurs. Le comité a utilisé une approche juste et mesurée pour recommander ces changements en s'appuyant sur le travail fondamental accompli en 2007. La stabilité financière de la CAT a permis d'améliorer les indemnités des travailleurs tout en offrant une diminution importante du taux moyen aux employeurs.

Plan stratégique

Après avoir solidifié nos dispositions législatives et nos mesures de gouvernance en 2013, nous nous tournons maintenant vers l'avenir. Je pense que l'une de nos réalisations les plus importantes a été



one of the most important accomplishments was the development of our Strategic Plan for 2013-2015. The plan was the product of collaboration between WCB Board members, staff and stakeholders, and it focuses on areas in which the WCB can make the biggest impact for Island workers and employers.

This past year was the first in the current strategic planning cycle and as you read this report, you will see that we have made great strides towards our strategic goals in the areas of safety, return to work, service, collaboration and stakeholder engagement. The plan was founded in our belief that no matter how well we do, there will always be something more we can do to improve.

As Chair of the WCB Board of Directors, I am very proud of our accomplishments in 2013. Our workplaces are safer, we were able to reduce rates for employers and we continue to find better ways to support injured workers to recover and return to work. I would like to thank my fellow Board members, our CEO Sharon Cameron, the entire WCB staff team and, most of all, our stakeholders for making 2013 such a successful year in safety and compensation. Together, we will continue this important work and keep each other safe.

Nancy Guptill
Workers Compensation Board Chair
Queen Elizabeth II Diamond Jubilee Medalist
Décoration De La Pléiade, Grade De Grand Officier

l'élaboration de notre plan stratégique pour 2013-2015. Les membres du conseil d'administration et les parties prenantes ont collaboré à la préparation d'un plan qui fait ressortir les domaines dans lesquels la CAT peut jouer un plus grand rôle pour les travailleurs et employeurs de l'île.

L'année dernière marquait la période initiale du cycle de planification stratégique actuel. En ce qui concerne nos objectifs stratégiques, nous avons déjà réalisé d'énormes progrès en matière de sécurité, de retour au travail, de collaboration et de mobilisation des parties prenantes. Nous croyons qu'il est toujours possible d'en faire davantage pour améliorer l'organisme, peu importe la mesure de succès que nous connaissons. Nous avons donc gardé ce principe en tête lors de l'élaboration du plan stratégique.

En tant que présidente du conseil d'administration de la CAT, je suis très fière des projets que nous avons réalisés en 2013. Nos milieux de travail sont plus sécuritaires, nous avons réduit les coûts pour les employeurs et nous continuons de trouver de meilleurs moyens d'aider les victimes d'accidents du travail en appuyant leur rétablissement et leur retour au travail. Je tiens à remercier les autres membres du conseil d'administration; notre directrice générale, Sharon Cameron; le personnel de la CAT; ainsi que les parties prenantes. C'est grâce aux efforts de chacun que nous avons connu un tel succès l'année dernière. Ensemble, nous poursuivrons ce travail important afin d'assurer la sécurité de tous.

Nancy Guptill
Présidente du conseil d'administration de
la Commission des accidents du travail
Récipiendaire de la Médaille du jubilé
du diamant de la reine Elizabeth II
Décoration de l'Ordre de la Pléiade (Grand Officier)



WCB Board of Directors



Nancy Guptill has been Chair of the Workers Compensation Board since 2007. She has made many contributions to Prince Edward Island as a former MLA and Cabinet Minister. Ms. Guptill was responsible for the Workers Compensation Act as the Minister of Labour and the Status of Women. She also served as the Minister of Tourism, was responsible for human rights in the province, and was the Speaker of the Legislative Assembly.



Stuart Affleck has been an Employer Representative on the Board of Directors since 2008. He was a farm

owner and operator for thirty-eight years; has held many positions through organizations such as the PEI Potato Board, East Prince Regional Health Board and PEI Unit 2 Regional School Board; and was a member of the National Farm Products Council.



Mike Annear has been an Employer Representative and Vice-Chair of the Board of Directors since

2008. He was a member of the 2007 and 2012 Workers Compensation Legislative Review Advisory Committees and served on the Board of Directors for the PEI Road Builders and Heavy Construction Association. For over fifteen years, Mr. Annear has coordinated safety training and programming for Kings County Construction Ltd.



Dianne Collins has been a Worker Representative on the Board of Directors since 2011. She is a graduate of

the Charlottetown Hospital School of Nursing and worked for over thirty years at Kings County Memorial Hospital (KCMH). Throughout her career, Ms. Collins has been dedicated to improving health and safety for Islanders, serving on the KCMH Occupational Health and Safety Committee and the PEI Health Governance Advisory Council.



Angus Houston has been an Employer Representative on the Board of Directors since 2008. He has over thirty

years of experience as an employer in PEI working in a number of capacities in the health, marine and hospitality industries. Mr. Houston has also owned and co-owned restaurants in New Brunswick, Nova Scotia and PEI, and currently represents PEI on the Dean's Advisory Committee to the Chair in Occupational Medicine with Dalhousie Medical School.



Harvey Larkin has been an Employer Representative on the Board of Directors since 2006. He is an employer

in the hospitality industry with an annual employment of 20-25 workers and is a farm co-owner and operator in the turkey growing business. Mr. Larkin has also served as a board member on various community organizations.



Alexander (Sandy) MacKay has been a Worker Representative on the Board of Directors since 2004.

He is a past President of both the PEI Union of Public Sector Employees and the Federation of Labour. Mr. MacKay was a member of the task force that developed the first *Occupational Health and Safety Act* for PEI and has served on two Ministerial advisory committees that recommended changes to the *Workers Compensation Act*.



Charlene McInnis has been a Worker Representative on the Board of Directors since 2004. Injured

on the job in 1999, she started working with injured worker groups and became the Injured Workers Organizational Committee Spokesperson in 2002. She currently works with the military community of PEI in partnership with advocacy groups for Canadian Forces members injured in the line of duty.



Margaret Stewart has been a Worker Representative on the Board of Directors since 2005. As a high school

English teacher, then teacher librarian, she was extensively involved in extra-curricular activities at the school, district and provincial levels. After serving on the Board of Governors and then the Executive of the PEI Teachers' Federation for ten years, from 2001-2003 she spoke for teachers provincially and nationally as president of the PEITF and as a Canadian Teachers' Federation director. Most recently she served as worker representative on the 2012 Workers Compensation Legislative Review Advisory Committee.

Governance

Role of the WCB Board of Directors

The role of the Board of Directors is to provide governance and oversight for the Workers Compensation Board of Prince Edward Island. The Board's responsibilities are set out in the *Workers Compensation Act* and include the following:

- Establishing policies and programs related to compensation and rehabilitation of injured workers, employer assessments, investments and the administration of the Act.
- Approving the annual administrative and operating budgets, as well as appointing auditors to examine WCB's finances.
- Enacting bylaws, policies and practices for the good conduct of the business and affairs of the Board.
- Periodically reviewing the *Workers Compensation Act* and its regulations and recommending amendments to ensure the legislation remains relevant and responsive to Island workplaces.

Committees

In 2013, the Board of Directors met thirteen times, including two governance sessions. The Board's Audit and Finance Committee met five times throughout the year.

Achievements in 2013


In 2013, the Board of Directors celebrated several significant achievements:

- *Amendments to the Workers Compensation Act.* The amendments, which were enacted in December 2013, were a result of recommendations of the 2012 Legislative Review Advisory Committee, based on the foundational work in the 2007 review. The 2012 Committee was chaired by Douglas Stanley, former CEO of WorkSafeNB, and included WCB Board members Margaret Stewart and Mike Annear. Key amendments to the Act included a reduction in the waiting period from three days to two days and an increase to wage loss benefits for injured workers.
- *Approval of the WCB Strategic Plan (2013-2015).* In addition to the Chair, two Board members representing worker and employer interests worked with WCB staff and stakeholders to develop the plan. The five strategic themes to emerge from the plan are Safety Culture, Return to Work Culture, Service Excellence, Collaboration, and Engagement and Communication.
- *Investment Education.* The Board participated in an investment session with the WorkSafeNB Board of Directors facilitated by Morneau Shepell. Board members engaged in a comprehensive review of all elements relevant to the investment management process and factors influencing key decisions. This included the nature of business and obligations, the Accident Fund, a review of asset classes and the building of sound investment policy.

- *Atlantic Heads of Delegations Meeting.* In August 2013, the WCB hosted the meeting of the Chairs and CEOs of the Atlantic workers compensation boards to discuss topics such as financial management, injury prevention, policy and legislation, risk management, emerging issues and opportunities for collaboration amongst the Atlantic workers compensation organizations. The August meeting also included a session with a governance consultant on the topics of stakeholder engagement, risk management and accountability.
- *National Committee Meetings.* The Board participates in national meetings through the WCB's membership in the Association of Workers Compensation Boards of Canada (AWCBC). In 2013, Board members took part in the All Committees Meeting in May, the AWCBC Congress in June and the AWCBC Learning Symposium in September. The meetings provided opportunities to collaborate, share knowledge and address common issues with other jurisdictions.
- *Governance Review.* The Board completed a comprehensive review of Board Governance policies through a risk management lens. Risk management is the process of identifying and understanding all risks that may be encountered by an organization, gauging the severity of the risks and prioritizing them to take appropriate steps to reduce or eliminate them. All policies were thoroughly examined with the assistance of a governance consultant to ensure alignment with key organizational outcomes as set out in the WCB Strategic Plan. A total of 24 policies were reviewed and 22 were amended as a result of the review.
- *Amendment to the Occupational Health and Safety (OHS) Act.* On the OHS Advisory Council's recommendations the WCB Board of Directors recommended an amendment to the *OHS Act* regarding a limitation period. The new provision will allow for a period of up to two years to investigate and to commence prosecution for non-compliance with the *OHS Act* and regulations.
- *Support for Occupational Medicine.* The Board continued its partnership with WorkSafeNB and the WCB of Nova Scotia to contribute to the funding of the position of Chair in Occupational Medicine at Dalhousie Medical School. The position was created to enhance the delivery of occupational medicine throughout the continuum of care in the Maritime provinces through the delivery of clinical care, academic programs, research and leadership in the field.

The Board is committed to remaining open and accountable to the public and our stakeholders. Summaries of the monthly Board of Directors meetings, including its decisions, are posted on the WCB website at www.wcb.pe.ca.

Meredith Principles



In 2013, Canada celebrated the centennial anniversary of the Meredith Principles. One hundred years ago, in Ontario, Justice William Meredith recommended a historic compromise to protect workers and employers. In exchange for the protection of workplace injury benefits, injured workers would relinquish the right to sue their employers. In turn, employers would be responsible for funding the no-fault insurance system.

Meredith's recommendations were based on the following principles:

- *No-fault compensation*, by which workplace injuries are compensated regardless of fault, and the worker and employer waive the right to sue.
- *Collective liability*, with the total cost of the compensation system shared by all employers.
- *Security of payment*, with a fund established to guarantee that compensation will be available for injured workers when they need it.
- *Exclusive jurisdiction*, with all compensation claims directed solely to the compensation board.
- *Independent board*, autonomous and financially independent of government or any special interest group.

In 1949, based on the Meredith Principles and legislation adopted in other provinces, Prince Edward Island adopted *An Act Respecting Workmen's Compensation*. This was the beginning of a compensation system in our province. Since then, it has evolved to include a focus on workplace safety in an effort to further protect workers and employers. The Meredith Principles remain the foundation of all Canadian workers compensation systems and after a century, they still apply today.

OHS Advisory Council

The Occupational Health and Safety (OHS) Advisory Council provides advice to the WCB Board of Directors on matters of workplace safety legislation. Members are appointed by the Minister and reflect a breadth of knowledge and experience related to the principles and promotion of occupational health and safety. The council consists of the WCB Chair, the WCB Director of Occupational Health and Safety, three members representing workers, three members representing employers and one person representing the general public.

Membership

Scott Ryan, Council Chair and Employer Representative
Nancy Gupthill, Workers Compensation Board Chair
Bill Reid, WCB Director of Occupational Health and Safety
Melinda Mulligan, Worker Representative
J. Fred Quinn, Worker Representative
James Steele, Worker Representative
Faye MacWilliams, Employer Representative
Alan McCormick, Employer Representative
Janet Harper, Public Representative

Role

The OHS Advisory Council advises the WCB Board of Directors on:

- The administration of the *OHS Act* and regulations.
- Monitoring and reporting on OHS throughout the province.
- Exclusions from all or part of the application of the *OHS Act* or regulations.
- Any other matter relating to OHS, including amendments to the *OHS Act* and regulations.

Accomplishments in 2013

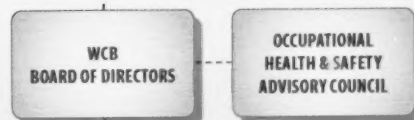
- Recommended amendments to the *OHS Act* to allow a two-year time period for an OHS officer to lay charges for OHS compliance violations.
- Worked on amendments to several regulations including: Electricity, Asbestos and Excavations, and Trenches and Construction.

Functional Structure

Legislation



Governance & Oversight



Operations



External Appeals



Young worker safety . . .

developing safety habits early in life
can contribute to a safety culture
for future generations.



Operational Overview



Sharon Cameron
WCB Chief Executive Officer
Directrice générale de la CAT

Q&A with the Chief Executive Officer

Dialogue avec la directrice générale

Q. What were the WCB's key accomplishments in 2013?

The Workers Compensation Board and the stakeholders we serve had another successful year in 2013. Claim numbers decreased, injury rates stabilized, investments were up, employer rates went down and service satisfaction was high for both workers and employers. In fact, we achieved all-time high service ratings from Island employers in our biannual employer survey. We are striving for comparable results from injured worker clients when we survey them in 2014.

These accomplishments were made possible through a variety of initiatives we implemented in 2013. This past year was one of research and review, which enabled evidence-based decision making in the administration of Prince Edward Island's workplace safety and compensation legislation. In 2013, we undertook a comprehensive review of our business processes, which included detailed analyses in the areas of technology, information management, performance measurement and collaboration.

As a result of this review, we continue to streamline and modernize our business processes and the ways we integrate technology for greater efficiency. We have put additional procedural checks and balances in place to enhance our diligence in protecting our clients' sensitive personal information. We worked with our Board to develop a strategic plan to set

Q. Quelles ont été les principales réalisations de la CAT en 2013?

La Commission des accidents du travail et les parties prenantes qu'elle a servies ont connu une autre année fructueuse en 2013. Le nombre de réclamations a diminué, le taux de blessures s'est stabilisé, les investissements ont augmenté, les cotisations des employeurs ont diminué, et le taux de satisfaction des travailleurs et des employeurs à l'égard du service était élevé. En fait, nous avons enregistré un sommet sans précédent au niveau du taux de satisfaction des employeurs de l'Île dans le cadre de notre sondage semestriel auprès des employeurs, et nous visons des résultats comparables lorsque nous sonderons les travailleurs blessés en 2014.

Ces réalisations ont été rendues possibles par diverses initiatives que nous avons mises en œuvre en 2013. La dernière année a été consacrée à des activités de recherche et d'examen qui ont permis la prise de décisions fondées sur des données probantes en ce qui concerne l'administration de la réglementation de l'Île-du-Prince-Édouard en matière de sécurité au travail et d'indemnisation. En 2013, nous avons entrepris un vaste examen de nos processus opérationnels, lequel comprenait des analyses détaillées dans les domaines de la technologie, de la gestion de l'information, de la mesure du rendement et de la collaboration.

Tenant compte des résultats de cet examen, nous continuons à rationaliser et à moderniser nos processus opérationnels ainsi que les façons dont nous intégrons la technologie en vue de travailler plus efficacement. Nous avons instauré des mesures de contrôle supplémentaires en matière de procédures en vue de protéger avec

the direction for the next three years and reconfigured our organizational structure to be better aligned with these strategic objectives. We have researched and analyzed the information we provide to our Board so that they have the most relevant information in their governance and oversight roles. This included the development of metrics to enhance the Board's understanding of the enterprise risks inherent in governance, as well as measuring the WCB's performance going forward.

As important as the accomplishments in 2013 are, equally as important is how we made them happen. All of these initiatives were the result of a team effort involving every area of the organization. This type of collaboration ensures that we gather the insights and evidence needed to make effective decisions. By including the entire WCB team in the process, we enhance the feeling of teamwork and ownership in achieving our collective goals. We have implemented significant changes, and our staff team has participated every step of the way. This collaborative effort is validated by the WCB's high morale and the positive outcomes we achieved together in a short time frame.

Q. What challenges lie ahead for the WCB?

In our mission to prevent workplace injury and assist in a safe and timely return to work for injured workers, there are a variety of factors that can have an impact. We are an integral part of the community in which we operate and, as such, we face the same challenges that are reflected throughout our society. For example, our population is aging. This can result in more complex injuries and longer healing times for older workers, which in turn have an impact on claim duration. Every jurisdiction is struggling with this issue and so we must find innovative ways to help people back to work, knowing that work is a determinant of overall health and well-being.

We also face challenges related to the types of injuries our workers experience. Injuries in Prince Edward Island workplaces are predominantly those that affect soft tissue, such as sprains and strains, confirming the need to transform our culture to focus on safety. Much work has been done to prevent exposure to hazards that can cause occupational disease, but we will need to do much more to assist those who have been exposed in the past. Significant discussions are taking place regarding ways to support injury prevention related to mental health in our workplaces, as we recognize this to be an emerging issue for compensation organizations across Canada.

We are always mindful of our economic climate to ensure that we contribute to sustainable solutions. We understand that we must collect employer assessments to cover future liabilities. At the same time, the system has to be affordable to continue to contribute to our province's economic prosperity. We know that changes to economic programs can have an impact on our claim duration and this is a particularly complex issue within a seasonal economy with high unemployment rates. All of these factors can have a greater impact in a small jurisdiction like Prince Edward Island, but we also have opportunities to capitalize on our size. The WCB of PEI has a unique advantage in that it is possible to reach out to every part of the province to establish meaningful and ongoing dialogue with our clients and stakeholders.

plus de diligence les renseignements personnels de nos clients. Nous avons travaillé avec le conseil d'administration en vue d'élaborer un plan stratégique pour établir l'orientation des trois prochaines années et avons reconfiguré notre structure organisationnelle afin de mieux tenir compte de ces objectifs stratégiques. Nous avons étudié et analysé l'information que nous fournissons au conseil afin qu'il dispose des renseignements les plus pertinents pour remplir ses fonctions de gouvernance et de surveillance. Nous avons notamment défini des paramètres permettant au conseil d'administration de mieux comprendre les risques inhérents à la gouvernance ainsi que de mesurer le rendement de la CAT à l'avenir.

Aussi importantes qu'aient été ces réalisations en 2013, la façon dont nous sommes parvenus à ces résultats l'est tout autant. Toutes ces initiatives ont été le résultat d'un effort d'équipe à tous les niveaux de l'organisation. Ce genre de collaboration garantit que nous sommes en mesure de recueillir l'information et les données probantes dont nous avons besoin pour prendre des décisions efficaces. En faisant participer toute l'équipe de la CAT au processus, nous rehaussons le sentiment d'avoir contribué en équipe à atteindre nos objectifs collectifs. Nous avons apporté des changements importants, et les membres de notre équipe ont participé à toutes les étapes du processus. Cet effort de collaboration est validé par l'excellent moral au sein de la CAT et les résultats positifs que nous avons obtenus ensemble en si peu de temps.

Q. Quels défis attendent la CAT?

Dans le cadre de notre mission qui consiste à prévenir les blessures au travail et à assurer un retour sécuritaire en temps opportun au travail des travailleurs blessés, divers facteurs peuvent avoir un impact. Puisque nous faisons partie intégrante de la communauté que nous servons, nous sommes confrontés aux mêmes défis que l'ensemble de notre société. Par exemple, notre population est vieillissante. Cela peut se traduire par des blessures plus complexes et des périodes de guérison plus longues dans le cas des travailleurs plus âgés, ce qui a des répercussions sur la durée de la période de prestations. Toutes les administrations sont aux prises avec ce problème, et nous devons donc trouver des façons innovatrices d'aider les gens à retourner au travail, sachant que le travail est un aspect déterminant de la santé globale et du bien-être.

Nous faisons également face à des défis relatifs au type de blessures que subissent nos travailleurs. Dans les milieux de travail de l'Île, les blessures prédominantes sont celles qui affectent les tissus mous comme les entorses et les foulures, ce qui confirme la nécessité de transformer notre culture afin de mettre l'accent sur la sécurité. Beaucoup de travail a été fait en vue de prévenir l'exposition aux dangers risquant d'occasionner des maladies professionnelles, mais nous devons en faire beaucoup plus pour aider les travailleurs qui ont été exposés dans le passé. En outre, des discussions sont en cours pour trouver des façons de soutenir la prévention des blessures au travail liées à la santé mentale, un nouvel enjeu qui préoccupe les organismes d'indemnisation un peu partout au Canada.

Nous restons toujours conscients du climat économique afin que les solutions proposées soient durables. Nous comprenons qu'il faut percevoir des cotisations patronales afin de couvrir les charges futures. En même temps, le système doit être abordable afin qu'il continue à contribuer à la prospérité économique de notre province. Nous savons que la modification des programmes économiques peut avoir des répercussions sur la durée de la période de prestations et que cette question est particulièrement complexe dans le contexte d'une économie saisonnière associée à un taux de chômage élevé. Tous ces facteurs peuvent avoir un impact plus grand dans une petite province comme l'Île-du-Prince-Édouard, mais il est aussi possible de tirer profit de notre petite taille. Or, la CAT de l'I.-P.-É. dispose d'un avantage unique, du fait qu'il lui est possible d'atteindre toutes les régions de la province pour établir un dialogue soutenu et valable avec ses clients et les parties prenantes.

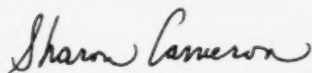
Q. How is the WCB positioned for the future?

Our past successes and our future challenges and opportunities will continue to be significant components in the WCB's enterprise risk management strategies. We will use this information to be proactive in identifying and managing risks so that we can continue to be responsive to the needs of Island workers and employers. We are committed to transparency and accountability to our stakeholders through mechanisms like this annual report.

Operationally, we have strengthened our capacity to analyze our environment and the data we collect to provide our Board with the best information required for oversight and good governance. The WCB is committed to ensuring that our system operates under sound and rigorous policy. We will continue to work with our stakeholders to find new ways to promote engagement through research and consultation. We will build upon our existing communication efforts to make sure that we get good information by asking the right questions. To reflect our service delivery, we will embark on a physical reconfiguration of our team, and refit our workspace to a more modern, streamlined space in efficient and affordable ways.

Prince Edward Island's safety and compensation system reaches out to every Island workplace. The WCB's future is one in which we will continue to balance our priorities with an unfailing focus on our clients, our stakeholders and our fiscal responsibilities. In these ways, we will inspire public confidence – a critical success factor in creating an environment in which we work together toward our common objectives.

We know that prevention is the most effective form of insurance. Ultimately, our goal is to make sure that all Islanders take an active role in making their workplaces safe so that everyone arrives home safely at the end of the work day. The WCB spent this past year in research and review. We know where we want to go and how we will get there. The evidence tells us that the safety and compensation system on PEI is strong and stable. It is fair, effective and affordable, and has solid risk management processes in place. This means that we are in an ideal position to continue to improve. We are looking forward to ongoing collaboration with all Islanders to continue to promote a culture of safety and return to work on Prince Edward Island.



Sharon Cameron, BA, BA Honors Cert., MEd
WCB Chief Executive Officer

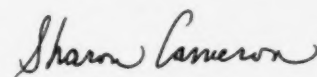
Q. La CAT est-elle bien positionnée pour faire face à l'avenir?

Nos réussites du passé et les défis et possibilités à venir continueront d'avoir un impact important sur les stratégies de gestion des risques de la CAT. Nous utiliserons cette information pour identifier et gérer les risques en vue de continuer à être sensibles aux besoins des travailleurs et des employeurs de l'Île. Nous misons sur la transparence et la reddition de comptes envers nos parties prenantes au moyen de mécanismes comme le présent rapport annuel.

Sur le plan opérationnel, nous sommes mieux en mesure d'analyser notre environnement et les données que nous recueillons, et de fournir au conseil d'administration la meilleure information possible pour qu'il puisse assurer la surveillance et la gouvernance. La CAT est déterminée à ce que son système fonctionne selon une politique saine et rigoureuse. Nous continuerons à travailler avec nos parties prenantes en vue de trouver de nouveaux moyens de stimuler l'engagement par la recherche et la consultation. Nous prendrons appui sur les efforts de communication déjà déployés pour nous assurer d'obtenir la bonne information en posant les bonnes questions. Afin de mieux représenter la prestation de nos services, nous entreprendrons une reconfiguration matérielle de notre équipe et réaménagerons notre espace de travail pour le moderniser et le rationaliser d'une manière efficace et abordable.

Le système de l'Île-du-Prince-Édouard en matière de sécurité au travail et d'indemnisation s'applique à tous les lieux de travail de la province. L'avenir de la CAT exige que nous continuions de maintenir l'équilibre entre nos priorités sans jamais perdre de vue nos clients, nos parties prenantes et nos responsabilités financières. Nous inspirerons ainsi la confiance de la population, facteur de réussite essentiel pour créer un environnement dans lequel nous pourrions travailler ensemble à la réalisation de nos objectifs communs.

Nous savons que la prévention est la forme d'assurance la plus efficace. Ultiment, notre objectif est de nous assurer que tous les Insulaires contribuent activement à assurer la sûreté de leur milieu de travail afin que chacun et chacune puissent se rendre à la maison en toute sécurité à la fin de leur journée de travail. La CAT a consacré la dernière année à des activités de recherche et d'examen. Nous savons où nous voulons aller et connaissons la manière d'y parvenir. Les données probantes nous indiquent que le système de l'Î. P. É. en matière de sécurité au travail et d'indemnisation fonctionne bien, est équitable, efficace et abordable, et comporte de bons processus de gestion des risques. Cela signifie que nous sommes dans une position idéale pour continuer à nous améliorer. Nous sommes impatients de poursuivre notre collaboration soutenue avec l'ensemble des Insulaires en vue d'établir une culture fondée sur la sécurité et le retour au travail à l'Île-du-Prince-Édouard.



Sharon Cameron, B.A., B.A. spécialisé, MEd.
Directrice générale de la CAT



Executive Team

Sharon Cameron, Chief Executive Officer

Ms. Cameron is responsible for the operation of the Workers Compensation Board, the development and implementation of its policies, and the management of its programs and services.

Jody Jackson, Executive Corporate Secretary

Mr. Jackson provides executive administrative support to the Chief Executive Officer, Senior Leadership Team and Board of Directors.

Wendy McIsaac, Director of Client Services

Ms. McIsaac leads the Client Services team in the provision of benefits and services to assist injured workers with recovery and return to work.

Bill Reid, Director of Occupational Health and Safety

Mr. Reid is responsible for the administration of occupational health and safety legislation and for the promotion of safe workplaces through education and enforcement services.

Luanne Gallant, Director of Human Resources, Corporate and Support Services

Ms. Gallant provides leadership in the areas of human resources as well as the corporate functions that support the WCB stakeholder services.

Tammy Turner, Associate Director of Corporate and Support Services

Ms. Turner is responsible for the operational aspects of employer assessments, facilities and procurement, finance, and information technology.

Tanya Robertson and Dave Riley, Legal Counsel

Ms. Robertson and Mr. Riley provide legal advice and support for all aspects of the organization, including workers compensation and occupational health and safety.

Shauneen Hood, Internal Reconsideration Officer

Ms. Hood is responsible for conducting an internal review if a Workers Compensation Board decision is questioned by a worker or an employer.

Core Business Overview

The Workers Compensation Board (WCB) serves the Island community through fair and effective administration of the provincial workers compensation and workplace safety legislation. This no-fault insurance system is funded entirely by employer assessments and governed by an independent Board of Directors representing the interests of workers and employers.

The Workers Compensation Board collaborates with workers, employers and all Islanders to build safe workplaces. The WCB strives to increase awareness of safety at work by promoting a culture of workplace injury prevention and by enforcing occupational health and safety standards.

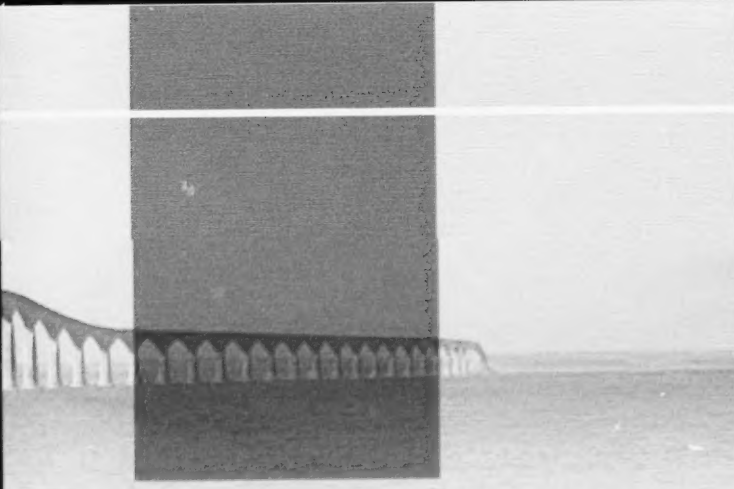

If a work-related injury or illness occurs, the WCB provides benefits and services to help reduce the financial, physical and emotional impacts on injured workers, and to assist in the recovery process. The WCB works with injured workers, employers and health care providers to assist workers in remaining at work after an injury or returning to work in a safe and timely manner.

Funding for the compensation and safety system is based on the principle of collective liability and employer assessments are based on industry risk and costs of workplace injury. The WCB manages the accident fund on behalf of Island employers to ensure the security of payment for workplace injuries in the past, present and future. To help reduce costs and protect workers, the WCB works with employers to develop effective injury prevention and return to work programs.

The Workers Compensation Board is accountable to its stakeholders.

It is committed to evidence-based decision making, effective policy research and development, meaningful stakeholder engagement, and integrity in all aspects of WCB business.

The WCB strives to increase awareness
of safety at work by promoting a culture
of workplace injury prevention.



Operating Environment

The Workers Compensation Board operates in a complex environment in which a variety of factors can impact our outcomes and service delivery. We believe that the best way to safeguard Island workers and employers from the risks inherent in our system is to remain vigilant and to have sound processes and monitoring systems in place.

The WCB is entrusted with our clients' personal information and we must ensure that we meet the increasing expectations for the protection of privacy as well as the access to appropriate information. We are mandated to administer the *Workers Compensation Act* and the *Occupational Health and Safety Act*, and committed to compliance with other legislation which intersects with our business, including the *Freedom of Information and Protection of Privacy Act*.

The public's expectations are also changing, with an increased demand for the immediacy brought by electronic forums such as social media and online service transactions. The Workers Compensation Board must adapt to society's evolving needs and provide excellent service for clients in every interaction.

A significant component of Prince Edward Island's economy is based on seasonal industries, which can present challenges in developing return to work programs for injured workers. In addition, even though PEI's unemployment rate is high, some industries on PEI have difficulty recruiting and retaining workers and are relying on temporary foreign workers to fill workforce gaps. The WCB must ensure that prevention and compensation measures are put in place to address the needs of an increasingly diverse and dynamic workforce.

Prince Edward Island's workforce is characterized by an aging demographic. Increasing rates of chronic health conditions, such as heart disease and diabetes, can contribute to longer healing times and more complex injuries. Other health related issues that may present challenges to the balance between funding and compensation include rising health care costs and access to timely, appropriate health care services that promote recovery and return to work.

Volatility in the markets creates a challenge as it affects the investment returns of the pooled fund from which all WCB benefits and administration costs are drawn. It is crucial that the Workers Compensation Board continue to be financially responsible and remain in a fully-funded financial position.

To remain effective, the Workers Compensation Board must constantly assess our environment to identify potential risk factors and to develop effective mitigating strategies. Our commitment to our stakeholders is that we will be diligent in all that we do and have appropriate checks and balances in place to anticipate and adapt. We will work together in proactive and responsive ways to build our collective understanding of how to best address our future challenges.

All Islanders can . . .

contribute to a culture of safety in which injuries are eliminated and all workplaces are safe.



Performance Reports

Overview of 2013-2015 Strategic Plan

This past year, the WCB was pleased to implement our Strategic Plan for 2013-2015, a product of ongoing consultation between our stakeholders, Board members and staff. Through this process of collaboration, we developed a comprehensive plan which will guide the Workers Compensation Board's activities over the next three years, with the flexibility to adapt to the ever-changing needs of the Island's workforce and workplaces.

Now is the perfect time for the WCB to focus our priorities in more effective and efficient ways. The WCB is in a stable financial position, we have built a solid foundation of service satisfaction, and the frequency of workplace claims has stabilized. We have developed effective relationships in the community and have established a balanced approach in meeting the needs of Islanders. These are all excellent starting points for the work ahead of us as we strive toward safety, compensation and service excellence.

Our Strategic Plan is based on our renewed mission, vision, and values, and focuses on five strategic themes.

2013-2015 Strategic Themes

Safety Culture

Workplace safety is everyone's responsibility and all Islanders can contribute to a culture of safety in which injuries are eliminated and all workplaces are safe. The WCB will work to encourage principles and practices that instill workplace safety as an integral part of the Island way of life.

Return to Work Culture

Being active, productive and connected to the workplace can promote recovery and well-being for those who have been injured at work. The WCB will support and promote a culture in which the physical, emotional and social benefits of returning to work are understood and embraced.

Service Excellence

The WCB strives toward service excellence to meet and exceed the expectations of our clients and to enhance confidence in the system. We will focus our efforts on delivering a consistent and positive experience at every point of client interaction.

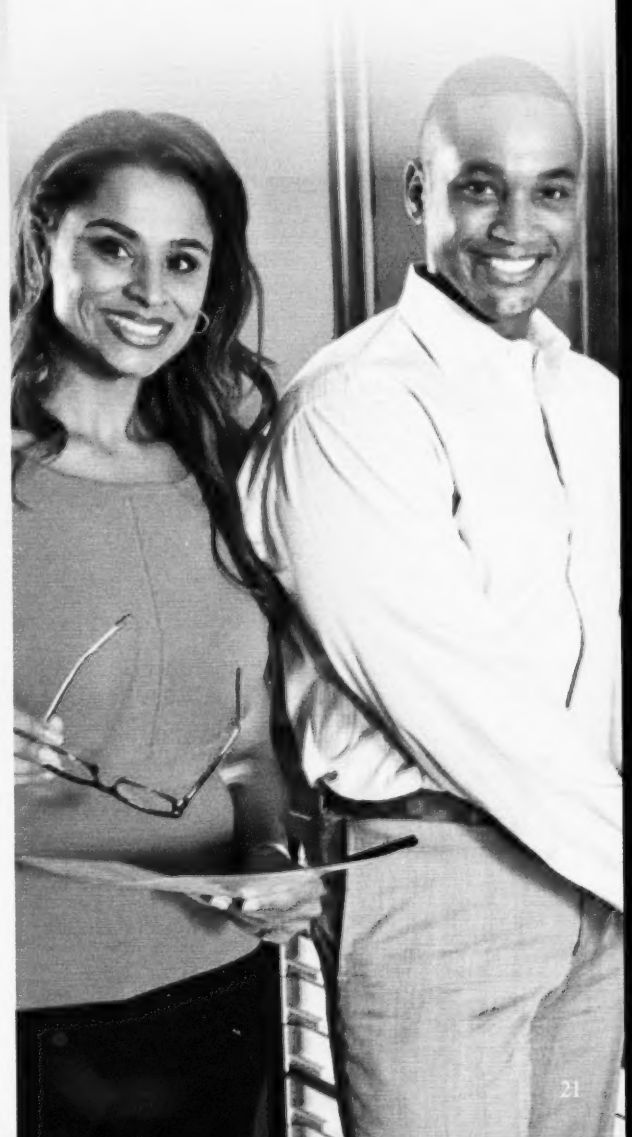
Collaboration

In order to realize the WCB vision, we must foster a dedicated team working in collaboration toward shared goals. The WCB will work to develop and advance an environment that focuses on common purposes and joint decisions.

Engagement and Communication

Effective and meaningful stakeholder engagement is critical to the success of our provincial workplace safety and compensation system. The WCB is committed to improving the ways in which we consult, collaborate and strengthen relationships with our stakeholders.

This plan sets out the ways in which the WCB will focus resources and position the organization to fulfill our mission. It is an investment in the future of workplace safety on PEI and a commitment to collaboration and accountability.



Safety Culture

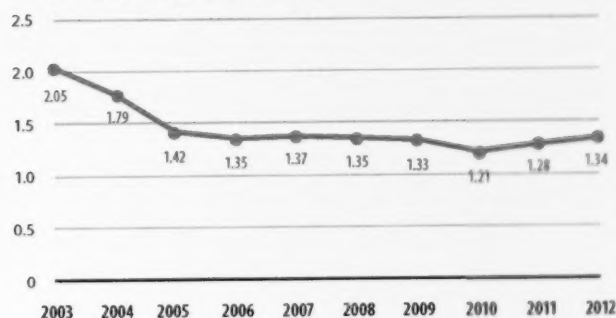
Strategic Theme

The WCB believes that the next frontier of injury prevention is the enhancement of a safety culture. Culture is a reflection of our beliefs and values that drive our collective behaviour. By making workplace safety the utmost priority, we can achieve our vision in which injuries are eliminated and all workplaces are safe. In addition to our ongoing safety education and enforcement efforts, the WCB is dedicated to promoting principles and practices to instill workplace safety as an integral part of the Island way of life.

Current State

Injury Frequency Rate, 2003-2012 (Graphic 1)

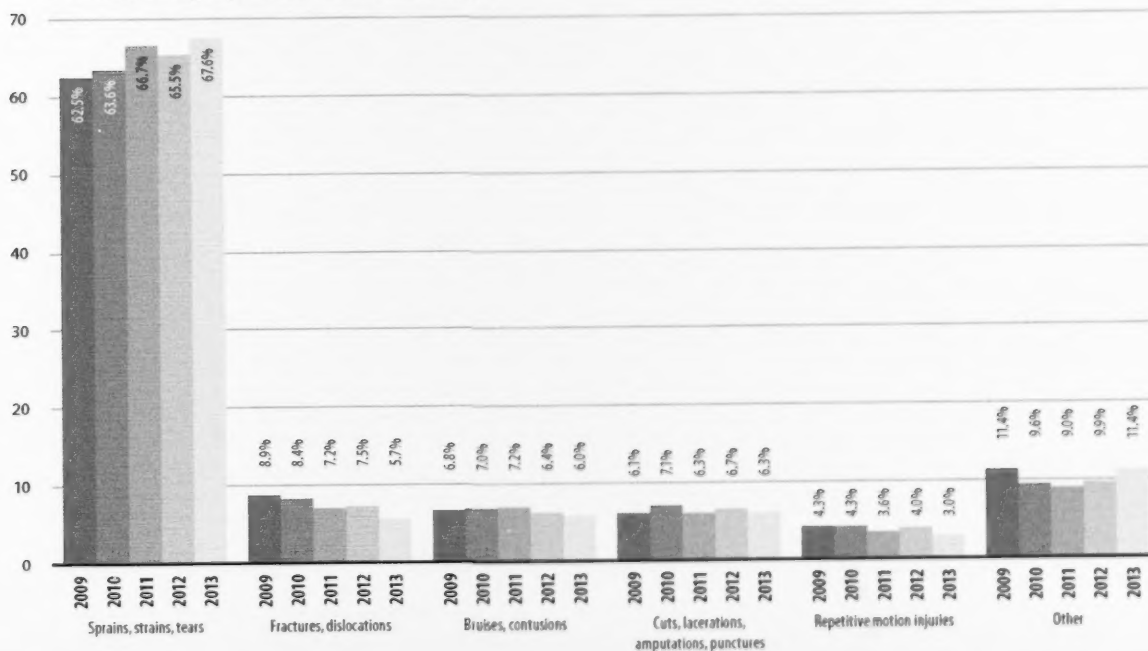
(Number of time loss injuries per 100 workers)



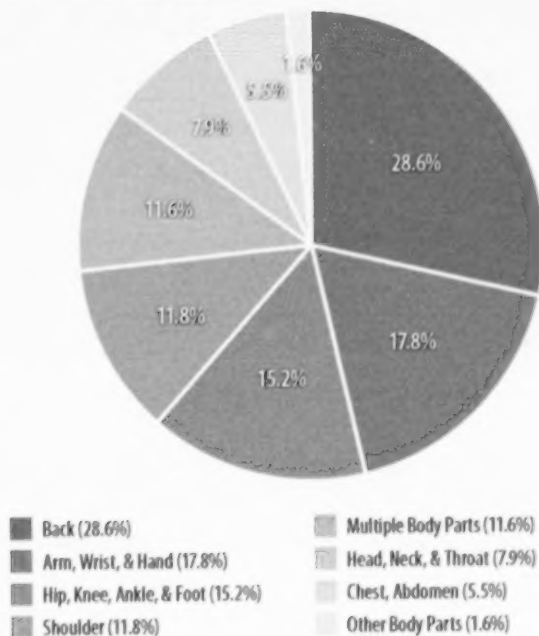
One way to measure safety culture is by the injury frequency rate, which is defined as the number of time loss injuries per 100 workers that occurred in a particular year. The statistic is based on workforce data, with the most current information available from the previous year.

After a significant decrease from the 2003 rate, the injury frequency rate has remained relatively static since 2006, reaching a low of 1.21 in 2010. In 2012, the injury frequency was 1.34, the second year in which a modest increase was experienced. This pattern is also reflected in the number of time loss claims adjudicated (Graphic 5, page 26). The WCB will continue to monitor this trend as an indicator of safety culture and to guide our prevention efforts.

Nature of Injury, 2009-2013 (Percent) (Graphic 2)



Anatomical Areas of Injury, 2013 (Graphic 3)



The most common types of injuries in PEI workplaces in 2013 continued to be soft tissue injuries such as strains and sprains (67.6% Graphic 2). This figure shows a 5% increase in the proportion of this type of injury compared to the previous year. The remaining 32.4% of reported WCB claims include injuries such as fractures, cuts, and burns. Thankfully, in 2013 none of these injuries were fatal.

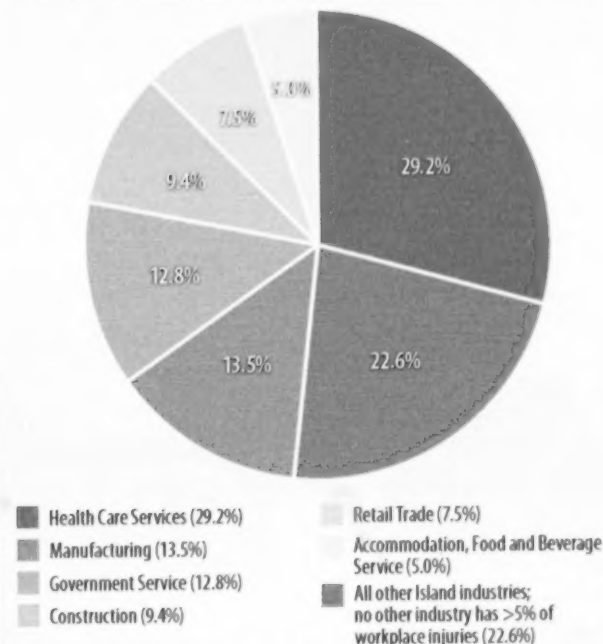
The back continued to be the most frequently injured part of the body in 2013, representing 28.6% of all new claims. The proportion of back injuries has remained constant over the past five years.

The relative stability of the injury frequency rate (Graphic 1, page 22) and the types of injuries reported may indicate that conventional prevention efforts, especially those targeting catastrophic injuries, have achieved moderate success but have reached a plateau. This is the reason why creating a safety culture is so important – to bring workplace safety and injury prevention to the next level on Prince Edward Island.

The Health Care Services sector continued to be the industry with the highest proportion of injuries, with an increase from 23.7% in 2012 to 29.2% of all new claims in 2013. This variation may also reflect improved safety performance in other industries, especially manufacturing (from 17.5% in 2012 to 13.5% in 2013). The WCB has a dedicated safety officer to work with the health care industry and will continue to work with all industries to help build a safety culture in every Island workplace.

We know that building a safety culture will not be easy, particularly in the context of an aging workforce as well as economic pressures and workload demands on both workers and employers. These factors create added complexities that may present barriers to a cultural shift toward safety, but the WCB is well positioned to meet these challenges.

Percentage of Workplace Injuries by Industry, 2013 (Graphic 4)



Organizational Performance

In 2013, the WCB implemented numerous initiatives to increase Prince Edward Island's workplace safety culture. These include:

- The 2013 Workplace Health and Safety Conference, held in April 2013 under the theme, *Working Together Towards a Culture of Safety*.
- The second annual WCB Safety Matters Award, to recognize an exemplary graduating high school student who demonstrated initiative and understanding of the principles of occupational health and safety.
- Analysis of the current occupational health and safety resources, to identify gaps and to provide improved access in a library of best practices.
- The adoption of a Safety Share practice at every internal and external meeting to disseminate important safety information. The WCB promoted this practice in all Island workplaces.
- The inaugural *It's Your Job: Workplace Rights, Camera, Action!* young workers video contest to promote safety and rights among youth. The contest was part of a national initiative of Labour Ministers from across Canada and was offered in partnership with the PEI Department of Environment, Labour and Justice.

In 2013, the WCB continued to protect Island workers and employers through its core Occupational Health and Safety (OHS) operations in education and enforcement.

Education

WCB Education Consultants provide information and advice on ways to reduce workplace risks and to promote the internal responsibility system in which everyone in the workplace takes responsibility for safety. Principles of health and safety are currently being integrated into the school curriculum to help young workers learn and practice safety in the workplace. Other safety education initiatives in 2013 included the following:

- Development of several documents on safety topics, including prevention of needle stick injuries, care around working with snow blowing equipment, and safety guidelines for potato producers, as well as several guides to help workplaces comply with our OHS regulations.
- Delivery of educational workshops on such topics as due diligence for managers and supervisors, effective safety committees, incident investigations, employers of young workers, workplace inspections, and the internal responsibility system.
- Development of two new workshops, one on workplace hazard assessments and the other for parents of young workers.
- Participation in events and fairs across PEI to promote the message of workplace safety.

Principles of health and safety are currently being integrated into the school curriculum to help young workers learn and practice safety in the workplace.

Enforcement

The WCB's OHS Officers enforce compliance with the workplace safety standards set out in the *Occupational Health and Safety Act* and regulations. This is done through regular and ad hoc inspections and investigations, and by responding to complaints received from workers, employers and concerned members of the public.

Enforcement activities in 2013 included the following:

- 1595 workplace inspections
- 182 investigations into serious injuries, near misses and complaints about the safety of workers or the workplace
- 1844 compliance orders, one for each violation of the safety legislation
- 54 orders in which work was stopped until safety compliance was achieved

In 2013, we continued with our *Zero Tolerance for Fall Protection Violations* campaign. This campaign was initiated in response to fatalities caused by falls, repeat non-compliance with the regulations, and the seriousness of the potential consequences resulting from falls from heights. To date, there have been a total of 26 prosecutions of workers, supervisors and employers for flagrant violations of the Fall Protection Regulations.

Moving Forward

The WCB plans to implement a safety climate survey that was developed and validated by the Institute of Work and Health. The survey will be used to establish a baseline measure of the current safety culture in Island workplaces. The instrument will be a part of a longitudinal study to measure the shift in culture over time with an anticipated expected result of improvement in the safety culture for Island workers, supervisors and employers.

We recognize that organizational safety leadership plays a major part in increasing the safety culture in Island workplaces. Consequently, the WCB is working on the development of a PEI Leadership Safety Charter that will encourage Island leaders to commit to increasing the safety in their own workplaces and act as ambassadors for safety in other Island workplaces.

In 2013, changes were made to the *Workers Compensation Act* that will allow for the levy of industry groups to fund safety associations, thereby creating another opportunity to promote the safety culture. We believe that the creation of an external safety association will help deliver the critical safety education and training that is essential to keep Island workplaces safe. To this end, we are currently working on policy to establish the conditions in which WCB-funded safety associations could be created.

We understand that the way to entrench safety in the culture of PEI workplaces is to reach out to the future workers of PEI. Our goal is to foster safety champions in every high school on Prince Edward Island to help spread the word to students about the importance of workplace safety.



Return to Work Culture

Strategic Theme

Being active, productive and connected to the workplace can promote recovery and well-being for those who have been injured at work. The WCB's goal is to assist workers to remain at work or return to work in a safe, timely and successful manner following a workplace injury or illness. To this end, the WCB will work with all Islanders to promote a culture in which the physical, emotional and social benefits of working during the recovery process are understood and embraced.

The WCB has an important role to play with respect to facilitating, assisting and supporting both workers and employers so that workers are able to return to work, whether it is immediately after an injury or after a period of being off work. We are committed to continuously improving return to work services to help workers to safely return to their pre-injury duties with their employer or, in instances where this is not possible, to productive employment through vocational rehabilitation.

Current State

Number of Adjudicated Claims *(Graphic 5)*

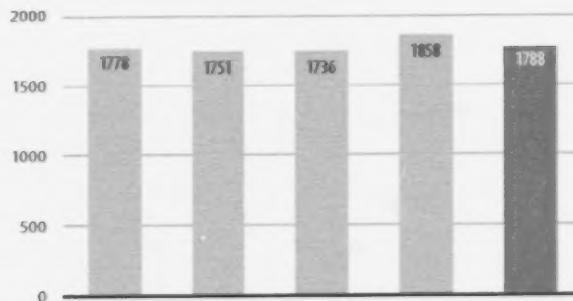
Total Adjudicated Claims: total number of claims adjudicated for entitlement to benefits.

Temporary Wage Loss: Claims received where, as a result of a workplace injury, compensation for wage loss is paid to a worker.

Medical Aid Only: Claims received where, as a result of a workplace injury, a worker does not lose wages but does receive medical aid which is paid on behalf of the worker by the Workers Compensation Board.

Fatalities: Claims accepted as a result of a workplace fatality.

Denied: Claims received and determined not eligible for workers compensation system benefits under the Workers Compensation Act.



| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------|------|------|------|------|------|
| Total Adjudicated Claims | 1778 | 1751 | 1736 | 1858 | 1788 |
| Temporary Wage Loss | 830 | 830 | 864 | 920 | 868 |
| Medical Aid Only | 790 | 859 | 763 | 803 | 774 |
| Fatalities | 2 | 0 | 0 | 4 | 0 |
| Denied | 156 | 82 | 109 | 131 | 146 |

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------|------|------|------|------|------|
| Total Adjudicated Claims | 1778 | 1751 | 1736 | 1858 | 1788 |
| Temporary Wage Loss | 830 | 830 | 864 | 920 | 868 |
| Medical Aid Only | 790 | 859 | 763 | 803 | 774 |
| Fatalities | 2 | 0 | 0 | 4 | 0 |
| Denied | 156 | 82 | 109 | 131 | 146 |

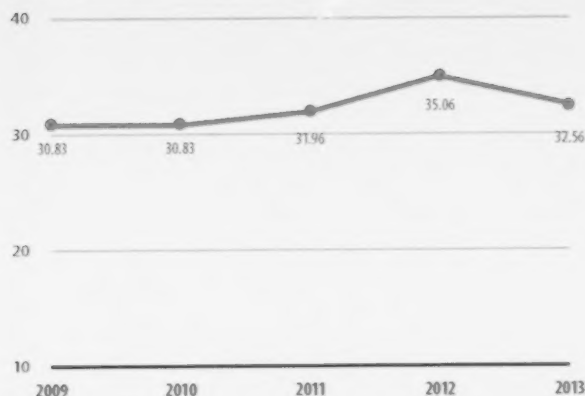
In 2013, the total number of WCB claims filed for workplace injury, illness or disease decreased by 3.8% from 1858 claims in 2012 to 1788 in 2013. There were no claims filed for occupational fatalities. Soft tissue injuries such as sprains, strains and tears remain the most common type of injury occurring in PFI workplaces with the back being the most frequently injured part of the body (*Graphics 2 and 3, pages 22 and 23*).

The number of time-loss claims, or the claims in which a temporary wage loss resulted, also decreased in 2013. The total number of time-loss claims in 2013 was 868, a 5.7% decrease from the 2012 total (920), but higher than temporary wage loss claims in previous years. From a trending perspective, these variations in time-loss claim numbers are not statistically significant; however, we will continue to monitor these results to ensure appropriate interventions are put in place. The injury frequency rate (*Graphic 1, page 22*) is considered to have more validity as it takes into account the size of the workforce in determining the rate of injury.



Average Days Claim Duration (Graphic 6)

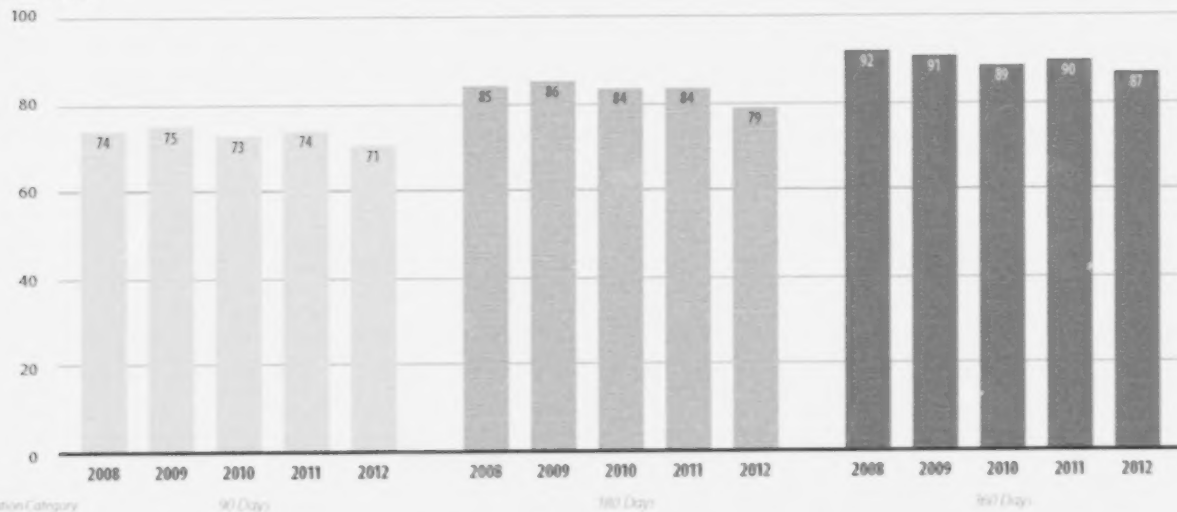
(Average length of time loss for claims accepted in 2013)



In 2013, average claim duration decreased by 7.1%, from 35.06 days in 2012 to 32.56 days in 2013. This statistic refers to the average length of time loss for claims that were accepted in 2013. Other than the increase noted in 2012, the average duration has remained relatively static over the past five years. Improving this outcome is one of the most compelling reasons for the WCB's strategic focus on building a return to work culture. Using effective claim management processes to assist workers with a safe and timely return to work will continue to be our priority.

Percentage of Injured Workers Who Are No Longer on Wage Loss Benefits, 2008-2012 (Graphic 7)

Percent Return To Work



The WCB has also expanded our key statistical indicators to further measure the success of our return to work efforts. Graphic 7 describes the percentage of injured workers who are no longer on wage loss benefits after 90, 180 and 360 days. The most recent data available relates to claims with a 2012 accident date; the lag year allows us to measure the sustainability of return to work and considers the fact that not all workers are able to remain at work following an initial return. For the past five years, over 70% of injured workers no longer required wage loss replacement benefits after 90 days. These results were relatively static from 2008-2011, with a modest decline in 2012 – a trend that is consistent with the claim duration for the same years (Graphic 6). Of those workers off compensation, over 80% were able to return to work with their pre-injury employer, which is the optimum outcome of return to work (Graphic 8).



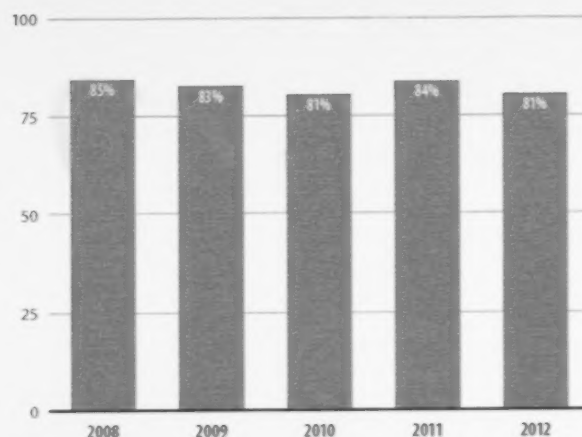
Tracking claim duration and return to work indicators helps the WCB to determine where to focus our intervention efforts so as to have the most positive impact. The WCB will continue to work with workers, employers and health care providers to promote work as an important component of a safe and timely recovery from workplace injury.

Organizational Performance

This past year was one in which the WCB focused primarily on initiatives intended to help us better understand our claim management environment and identify areas of improvement with respect to claim management and return to work services. This work is foundational for improving return to work outcomes and achieving service excellence through an ongoing process of continuous quality improvement. Initiatives in 2013 included these:

- Research and statistical analysis to provide us with an in-depth understanding of our current environment, allowing us to objectively measure progress, identify trends over time and plan strategically for the future with respect to improving RTW outcomes.
- Development of key statistical indicators to better track, monitor and measure outcomes related to client population, claim volume, duration, return to work efforts and costs.
- A claim review to examine clear and timely communication with our clients, development of recovery / return to work plans for our clients, appropriate application of our legislation as well as the correct application of our policies and claim management processes.
- A comprehensive review of physiotherapy service usage and its impact on improved return to work outcomes for injured workers.
- Efforts to strengthen relationships and opportunities for collaboration with key system stakeholders including physicians, employers, labour groups and adult training specialists regarding the importance of return to work.

Percentage of Workers Who Returned to Work with Accident Employer, 2008-2012 *(Graphic 8)*



Moving Forward

Successfully remaining at work or returning to work following a workplace injury depends on effective communication and collaboration between all key stakeholders, including the worker, employer, co-workers, medical service providers and the WCB.

The WCB is committed to developing quality business processes to support our return to work goals. Adjudication claim processing standards were implemented in 2011, resulting in significant reduction in the amount of time it takes to adjudicate claims and issue benefits to workers (*Graphic 11, page 30*). In 2014, the WCB will expand this initiative to develop standards and pathways for claim management that support us in achieving better outcomes in returning injured workers to work in a safe, timely and sustainable way.

Additional return to work initiatives for this strategic planning cycle include developing technology, optimizing the structure and duties of the workplace services team, and enhancing services and relationships with our external providers to support safe and timely return to work.

There are a variety of factors that can influence return to work efforts. Prince Edward Island has an aging population, and older workers may experience more complex injuries and take longer to recover. With our seasonal and small business economy, pre-injury employment opportunities can be limited. Health system wait times can also have an impact on recovery, especially if an injury requires specialized medical treatment or surgery. Improving RTW outcomes will require a targeted focus and a multi-pronged approach to address internal and external challenges to achieve successful RTW outcomes.



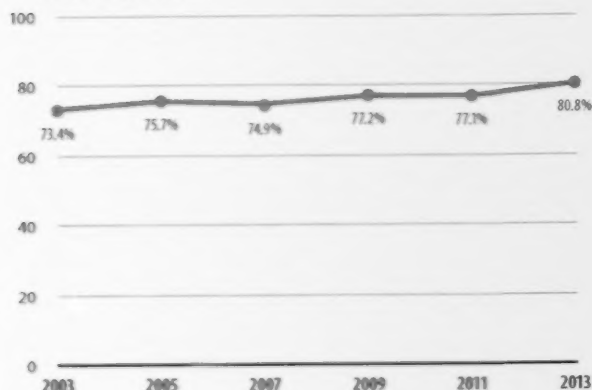
Service Excellence

Strategic Theme

The WCB strives to meet and exceed the expectations of our clients through service excellence. A significant part of the WCB's work involves enforcing workplace safety standards, helping workers during their recovery and collecting assessments from employers. The WCB's goal for service excellence is to deliver a consistent and positive experience at every point of client interaction. It is extremely important that we are polite, knowledgeable, accountable and transparent in all that we do. The nature of our work can require that difficult decisions be made. We want to provide the best service possible to meet client needs, effectively and respectfully, and to continue to inspire confidence in the safety and compensation system.

Current State

Employer Survey Service Satisfaction Index 2003-2013 (Graphic 18)



Injured Workers WCB Performance Index 2002-2012 (Graphic 10)



The WCB conducts biannual surveys with its two key stakeholder groups, injured workers and registered employers. The purpose of the surveys is to measure how well we are meeting our clients' service expectations and to identify areas of improvement in our programs and service delivery. Although the WCB has achieved high satisfaction ratings with its stakeholders, we will continue to find ways to improve.

In 2013, the WCB achieved all-time high results in employer satisfaction with a Service Satisfaction Index score of 80.8%. The index is a composite of the results related to effectiveness in providing service, overall satisfaction with the WCB and fairness of the system. It also factors in scores on WCB Employer Services accessibility, promptness, ability to answer questions, frequency of contact, clarity of letters, politeness and reporting.

Results of the last WCB survey of injured workers in 2012 indicated a continuation of improved service satisfaction with a Performance-Index rating of 71.8%. This index is based on injured workers' satisfaction with the overall WCB experience, fairness of treatment, involvement in claim decisions and the WCB's ability to answer questions.



Organizational Performance

In 2013, the WCB continued to work with injured workers, employers, health care providers and other stakeholders with the overall goal of improving service delivery, particularly in the areas of claim processing, decision making, information management, online services and organizational capacity building.

According to our injured worker surveys, WCB clients expect to receive their first benefit payment within two weeks. In 2013, the WCB achieved a reduction in the time to first payment, with an average of 15.22 days. This was accomplished by implementing processing standards for claims adjudication and by being more proactive in our approach to information gathering in the initial phase of a claim. These changes are part of the WCB's continuous process improvement, and we will continue to strive toward the 14 day standard – recognizing that complex claims by their nature require more time to adjudicate effectively.

Decision Making

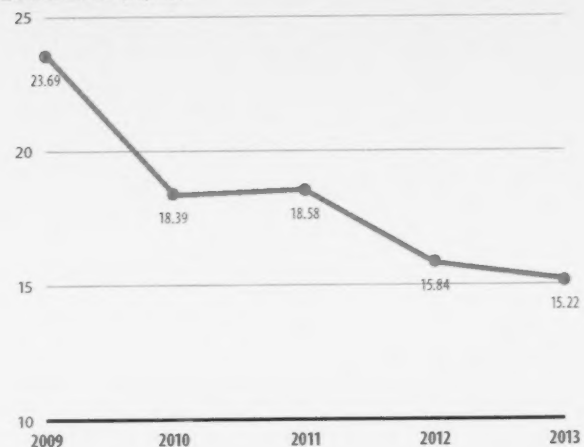
The WCB is committed to making decisions that apply our policy and legislation in a fair and objective manner. In the event that a worker or employer is not satisfied with a decision, there is an appeal process in place. One way in which we can monitor our ability to make effective decisions is in the rate at which they are upheld at appeal (*Graphic 12*).

The first level of appeal within the workers compensation system is Internal Reconsideration (IR). There were 53 decisions rendered by the WCB Internal Reconsideration Officer in 2013, 87% of which upheld the decision that had been made on the claim or on the employer assessment. When an Internal Reconsideration decision is appealed, it is heard at the Workers Compensation Appeal Tribunal (WCAT). Of the 15 decisions made at the WCAT level in 2013, 53% upheld the IR decisions.

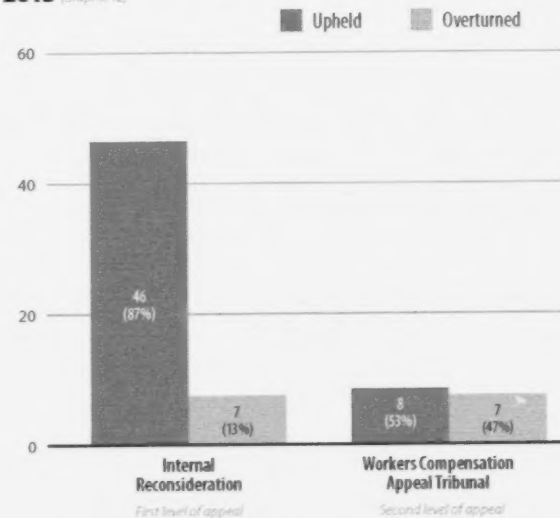
These favourable rates attest to the quality of the decisions made by the WCB but we will continue to work on improving the appropriateness of our decisions and the ways in which we communicate these decisions. In 2013, the WCB Client Services division underwent training in decision making and these development opportunities will continue in 2014.

We will also continue to work on improving our decision making processes by implementing a number of strategies from our Information Management review (facing page). This included a workflow effectiveness initiative to align work tasks with subject matter experts to improve efficiencies and accuracy.

Average Calendar Days to First Payment 2009-2013 (*Graphic 11*)



Number of Upheld Decisions at Appeal 2013 (*Graphic 12*)





Information Management

The Workers Compensation Board conducted an Information Management and Document Security project in 2013. The focus was on strengthening our capacity to protect our clients' private information and improving the overall efficiency of our core delivery system. Project initiatives included the effective use and integration of technology, a reduced reliance on paper, and enhanced processes around the release of information, document indexing, claim processing and bill payments.

Online Services

In 2013, the employer suite of WCB Online Services was complemented with a pre-authorized debit payment option for those who pay their assessments monthly, as well as the ability to register a new firm for WCB coverage. In addition, we launched our first services for health care providers allowing physiotherapists and chiropractors to submit reports electronically. As a result of stakeholder feedback we also added an automated password reset feature for existing online users. In 2014, the WCB plans to broaden the range of online services offered to health care providers, beginning with services for direct deposit and checking payment status.

Service Delivery

In 2013, the WCB continued to build service delivery capacity among our staff by supporting training and development opportunities such as formal training, workshops, and participation in national and regional meetings and conferences. In addition to individual capacity building, professional development has been incorporated as a regular component of WCB general staff meetings.

Moving Forward

In 2014, the WCB will continue to monitor and evaluate our programs and service delivery based on stakeholder feedback. We will work with health care providers and physicians in particular to build an understanding of our clients' needs and identify ways we can work together to improve service delivery.

We will continue to develop a case management model to support service excellence. This includes enhancing our systems to be more responsive, finding ways to better anticipate individual needs when recovery is atypical, developing standards across the claim continuum and structuring our team for optimal service delivery.

In order to serve all our clients better, the WCB will undergo an interior workspace refit. Upon review of the current configuration, the WCB determined that a workspace refit would be the most cost-efficient option to meet the WCB's business requirements and to facilitate service improvements. The refit will maximize the use of physical space, promote enhanced service delivery improvements through modernization, and increase collaborative opportunities.

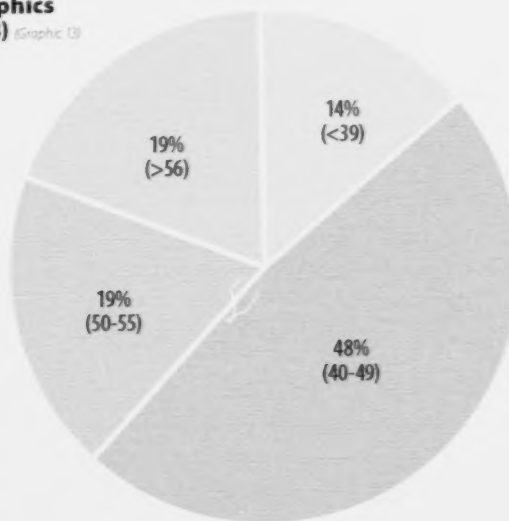
Collaboration

Strategic Theme

Achieving the WCB vision requires a dedicated team working in collaboration toward shared goals. Each team member must understand the core business and appreciate how individual roles can interact to have a positive impact in achieving the WCB's goals. By sharing our skills and knowledge, we strengthen the effort to provide Island workers and employers with an effective workplace safety and compensation system. The WCB will work to develop and advance a collaborative environment that focuses on common purposes and joint decisions.

Current State

Staff 2013 Age Demographics (as of December 31, 2013) (Graphic 13)



The composition of the WCB team is a key consideration in the development of a collaborative organization. In 2013, 19% of our workforce was over 55 years of age *(Graphic 13)* and may be eligible for retirement. In addition, over 50% of WCB staff are in single incumbent positions.

To contribute to the ongoing sustainability of the organization, the WCB identified succession planning and management training as priorities in 2013. Our succession planning efforts focused on knowledge transfer for highly specialized single incumbent positions, identification of positions critical to business continuity and cross training for back up personnel.

In 2013, the WCB also implemented a management training initiative on how organizations achieve collaborative success. The purpose of the training was to build understanding of personal management styles and team dynamics in order to work and interact more effectively while strengthening the management team.



Organizational Performance

Recognizing that organizational effectiveness is dependent on individual performance, in 2013 the WCB enhanced its performance management program. The revised program supports collaboration through performance measures of relationship and team building, effective communication and self-development. The enhancements were initiated by a multidisciplinary committee representing all areas of the WCB, using feedback from WCB staff to inform the changes. The purpose of the program is to promote continuous improvement by providing regular and ongoing feedback on how individual performance aligns with the goals of the organization.

Collaboration was also a focus for the WCB Senior Leadership Team in 2013. The team restructured its regular meeting agendas to include additional opportunities for risk management business process reviews, information sharing, problem solving and organization-wide decision-making processes. An example of this type of collaboration was the 2013 budget review, which introduced enhanced processes to collectively identify priorities for effective resource allocation and cost reductions.

An important component of organizational collaboration is staff feedback, which was encouraged both informally and through mechanisms such as event-specific surveys throughout 2013.

The WCB continued to respond to the feedback from its 2011 employee satisfaction survey, which focused on communication across the organization. The post-survey communication committee made a number of suggestions that were put in place in 2013. This included the production of the *Friday Focus*, a weekly update from the CEO on organizational activities and divisional initiatives.

In 2013, the WCB embarked on a number of initiatives in which staff and managers worked together to problem solve and to share their challenges and learnings. Cross-divisional initiatives that facilitated collaborative excellence in 2013 included the WCB strategic plan development, the information management project and the information technology strategic process. In addition to these initiatives, over 50 % of staff participated on cross-divisional committees.

A major initiative that commenced in 2013 was our organizational realignment so that the structure of the organization supports the work that we do. The WCB staff team played a pivotal role in the realignment. Management engaged in discussions with the union throughout the process. As the WCB begins the work to physically refit its workspace, the team's alignment will continue to be refined to ensure that the WCB is in the best position to collaborate and deliver service excellence while containing costs.



Moving Forward

The WCB will continue its work to identify critical functions to ensure continuity of corporate knowledge. The WCB commenced development of a knowledge transfer program which includes the documentation of regular processes and procedures for identified key functions and positions. This work will be completed in 2014.

The WCB will also institute a regular management forum for directors and managers to promote a community of leadership within the WCB. The work of this community will consist of information sharing, problem solving and working collaboratively towards the strategic direction of the WCB. The forum will also coordinate training and development opportunities for the team.

A qualified, committed, and motivated staff is the WCB's most valuable resource. We are committed to creating a collaborative environment in which we believe in the work we do, have the tools, knowledge and support we need, and are challenged to contribute to the WCB's ongoing improvement.

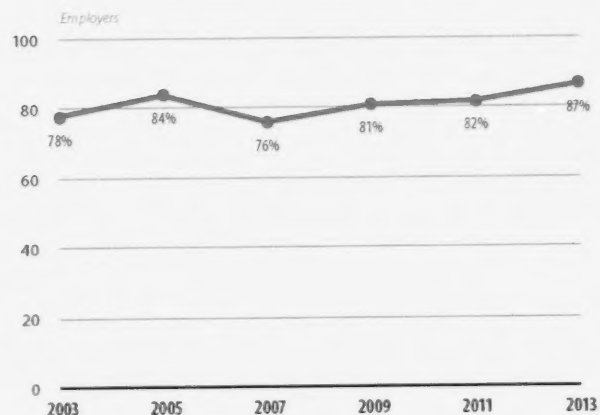
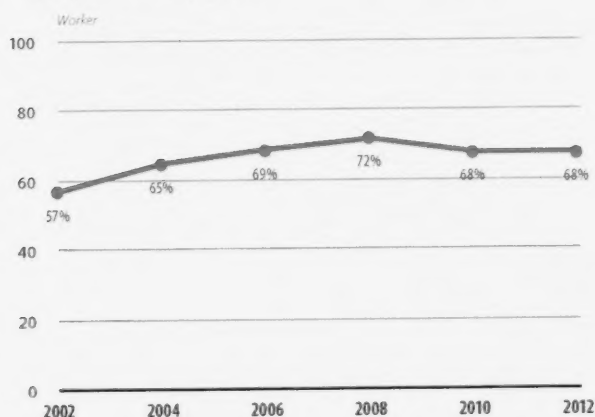
Engagement and Communication

Strategic Theme

Meaningful communication and engagement is critical to the success of our provincial workplace safety and compensation system. It is through open dialogue that we can identify our stakeholders' needs and measure our effectiveness in meeting their expectations. The WCB is committed to improving the ways in which we consult, collaborate and strengthen relationships with our community. Because stakeholders and their interests evolve over time, the WCB must be both proactive and responsive with a comprehensive, flexible and adaptive stakeholder engagement model.

Current State

Perception That the WCB Does a Good Job of Keeping Employers and Workers Informed (10 year trend) (Graphic 14)



One way to determine how effectively the WCB communicates with our stakeholders is to measure the perception of how well we keep them informed. The results from our stakeholder surveys over the past ten years indicate that while the majority of our clients agree that the WCB communicates effectively, ratings are significantly higher amongst employers. In 2013, 87% of employers agreed that the WCB does a good job keeping them informed, compared to 68% of workers in 2012. The WCB will continue to develop strategies to improve the ways we communicate with our clients and has identified this measure as one of our key organizational metrics to gauge success going forward.



Organizational Performance

To promote engagement and participation in the safety and compensation system, the WCB concentrated on its outreach efforts throughout 2013. In addition to our ongoing dialogue with our individual worker and employer clients, our outreach included meetings with Labour organizations, employer groups, industry associations, community organizations, government partners, health care associations and learning institutions. We hosted and participated in community events, trade shows, conferences and workshops. We created numerous stakeholder consultation opportunities, particularly through our policy development and strategic planning processes, and we encouraged all stakeholders to join us at our annual public meeting held in June. The WCB plans to continue these efforts to build longstanding and productive relationships with our stakeholders.

In 2013, the WCB continued to participate on national committees with our executive colleagues and content experts from compensation organizations across Canada. Not only do these activities enable us to learn from one another, they are also excellent opportunities to address national safety and compensation issues that affect us all.

The WCB knows that our stakeholders connect through a variety of forums, so our communications and engagement activities were varied throughout 2013. We continued the social marketing partnership with our Atlantic counterparts to develop regionally based initiatives that influence perceptions about safety and return to work. We continued to use traditional media to raise awareness of workplace safety and to highlight the accomplishments that the WCB achieved with our stakeholders during 2013. With the rising popularity of video as a communication medium, in 2013 we produced a website video about the WCB and our integral role in the Island community. We also conducted an audit of our online communications to identify areas in which we can better reach the stakeholders who prefer electronic means of communication.

The WCB is committed to engaging all of the Island's diverse community. In 2013, we started work on measuring our capacity for French language services and we will continue to work on ways to engage our Francophone stakeholders. We also partnered with the PEI Newcomers Association and the PEI Connectors to reach out to our newest citizens to help them build an understanding of workplace safety and participation in the compensation system.

Moving Forward

The WCB recognizes that our clients' expectations are changing, with an increased demand for the immediacy provided by electronic forums such as social media and online transactions. The WCB's communication efforts will continue to evolve to provide excellent service for clients at every interaction. In 2014, the WCB will continue our research into effective ways to engage our stakeholders with a social media strategy.

The WCB corresponds with employers and injured workers on a regular basis and these communications can be detailed and technical in nature. Because it is so critical that the information we provide to our clients is both precise and easy to understand, in 2014 the WCB will initiate a plain language project to improve the quality and readability of our client communications.

Research is an important component of stakeholder engagement. The WCB has been capturing and tracking data through our stakeholder surveys over the past decade. In 2014, we will investigate ways to enhance our stakeholder research model. This work will include evaluating whether the current model provides sufficient feedback and examining alternative research methods.

As an integral part of the Island community, the WCB will continue to strengthen our community engagement through our participation as socially responsible corporate citizens. This will include the development of a corporate social responsibility strategy and continued support for community events, particularly those that help to achieve our strategic goals.

By providing meaningful, relevant information to Islanders, establishing open dialogue and building trust with the community, the WCB will help to create safer workplaces and assist injured workers to return to work.



The WCB: A part of our Island community

The WCB believes in strengthening our Island community, so much so that we have identified corporate social responsibility as a priority in our strategic plan. The identification of this strategic initiative will bring a sharper focus to an area where foundational work has already occurred.

We know that our efforts to build a return to work and safety culture on Prince Edward Island will be bolstered through participation in our community. As good corporate citizens, doing our part to make our Island a better place is simply the right thing to do.

Environmental Stewardship

In 2013, the Board installed water coolers which use and filter city water thereby eliminating the need for bottled water.

An intelligent heating control system was installed in our hot water heating system to reduce our dependency on oil and electricity.

We reduced our reliance on paper by improving the ways we integrate technology into our business processes.

The WCB changed all of its lighting from incandescent to CFL and "green friendly" fluorescent bulbs again – reducing our dependency on electricity.

Community Leadership

The WCB is pleased to support Threads of Life, a national community organization which helps families of workplace tragedy along their journey of healing by providing families with programs and services. The WCB is proud to sponsor their annual fundraiser, the Steps for Life Walk. For the past two years the WCB has won the Steps for Life Corporate Challenge, recognizing the highest staff participation by an Island company.

Volunteers are a vital part of any community and the WCB is very proud of the volunteer and charitable work of our staff. Some of our community initiatives include the following:

- Proceeds of the weekly casual day collection are donated to a community charity. Our beneficiaries have included the Upper Room, Family Violence Prevention, Bedford MacDonald House, Joy Riders, Bowl for Kids Sake, Inner City Kids Camp, Humane Society, Steps for Life and Hospice PEI.
- During the 2013 Christmas season, WCB staff also donated to the Salvation Army Christmas Baskets Campaign, the Salvation Army Bedford MacDonald House and the Gifts for Seniors program organized by a local pharmacy.

Moving forward, the WCB will identify socially responsible initiatives that will strengthen community engagement and have a positive outcome for all Islanders.



Financial Analysis

Overview and Analysis of 2013 Financial Results

2013 and 2012 Highlights

(Graphic 15)

| Financial Highlights (\$ millions) | 2013 | 2012 |
|--|---------|---------|
| Portfolio Investments | 213.3 | 184.3 |
| Benefit Liabilities | 161.8 | 151.7 |
| Assessment Revenue | 35.0 | 33.4 |
| Investment Revenue | 29.0 | 17.7 |
| Claim Costs | 36.2* | 26.6 |
| Administration Expenses | 7.8 | 7.8 |
| Surplus (Deficit) | 20.5 | 17.3 |
| Fund Balance | 58.9 | 38.4 |
| Operational highlights | | |
| Funded Position – Fair Market Value (%) | 135.3 | 124.7 |
| Funded Position – Smoothed Value (%) | 115.4 | 113.2 |
| Number of Assessed Employers | 5,025 | 5,041 |
| Estimated size of Prince Edward Island workforce (#)** | 74,100 | 72,800 |
| Number of Claims Adjudicated | 1,788 | 1,858 |
| Market Rate of Return on Portfolio (%) | 15.73 | 10.89 |
| Average Assessment Rate (\$ per \$100 of assessable payroll) | 1.97 | 1.99 |
| Assessable Payroll (\$ in millions) | 1738.46 | 1701.19 |
| Maximum Assessable Earnings (\$) | 50,000 | 49,300 |

* Includes latent occupational disease costs (new to 2013) and costs as a result of 2013 legislative amendments

**Based on Statistics Canada Labour Force Survey Estimates of entire PEI workforce

Preface to the Financial Statement

Long term sustainability of the workers compensation system on Prince Edward Island depends on sound fiscal management, stringent audit standards, full funding policies and transparent financial reporting. The Workers Compensation Board is committed to protecting the future of the workers compensation system on behalf of Island workers and employers.



Financial Reporting Standards

Investment income is recorded in two ways – smoothed and at fair market value. Under the smoothed method of recording investment income, gains and losses on the sales of investments are smoothed over five years rather than reported in the year investments are sold. The result is to reduce the volatility experienced in financial results, as the recorded annual rate of investment return is more comparable to the long term rate of return than to the short term rate.

Under the fair market method of recording investment income, gains and losses are recognized in the year they occur. This practice, with fluctuating markets, can introduce a significant amount of volatility to year-end financial results.

During the 2004 year, as a result of new standards introduced by the Canadian Institute of Chartered Accountants, all workers compensation boards in Canada were required to change the way in which income is reported in their financial statements. Investments had to be recorded at their fair market value. International Financial Reporting Standards adopted in 2011 continue to require that investments be recorded at fair value.

As a way to manage the volatility of investments, the WCB continues to smooth investment returns for the purpose of setting employer assessment rates and the maintenance of the funding strategy. The Workers Compensation Board of PEI uses both methods of reporting in its financial statements.

Funding Strategy

The WCB's funded percentage, as determined based on the smoothed method of recording investment income, was 115.4% at the end of 2013, compared with 113.2% at the end of 2012. The adoption of the fair value method results in a funding ratio at the end of 2013 of 135.3%.

The WCB considers a number of factors as drivers of its key business decisions, including its accounting policy and the health of the investment market. The WCB has made a deliberate decision to protect Island employers and workers from market volatility by basing employer assessment rates on the long term expected rate of return rather than on short-term results. Short-term annual investment gains or losses are, by their nature, unpredictable, and not guaranteed to be sustained over the long term. The WCB has concluded that its financial capacity to lower rates or increase benefits should continue to be based on long-term expectation for investment returns.

In 2002, the WCB implemented a funding strategy to address retirement of the unfunded liability as of December 31, 2001. In 2007, the WCB replaced this funding strategy with a funding policy which recognizes current funding levels and is aimed at maintaining a financial position of fully funded.

The primary goals of the funding policy are to minimize the risk of becoming unfunded, thereby ensuring there is sufficient money available for payment of current and future worker benefits; minimize cost volatility for employers so that the overall average assessment rate for the current year will not vary significantly over the previous year's overall average assessment rate; minimize the total cost charged to employers by ensuring

the funded status is appropriate in relation to financial needs; and ensure today's employers pay for the current and future cost of today's accidents.

The funding policy targets a funding status in the range of 100% – 110% and includes specific adjustments to be applied to the assessment rate setting process should the funding status fall outside this range.

Financial Highlights for the year ending December 31, 2013

When the Workers Compensation Board of PEI adopted International Financial Reporting Standards (IFRS) in 2011, conformity to the new standards required a restatement of 2010 financial results. In the following sections there will be comparative financial information dating back prior to 2010 that was not restated with the application of IFRS transition adjustment rules as of January 1, 2010.

For background it is recommended that the following pages be read with the consolidated financial statements and accompanying notes.

Revenues

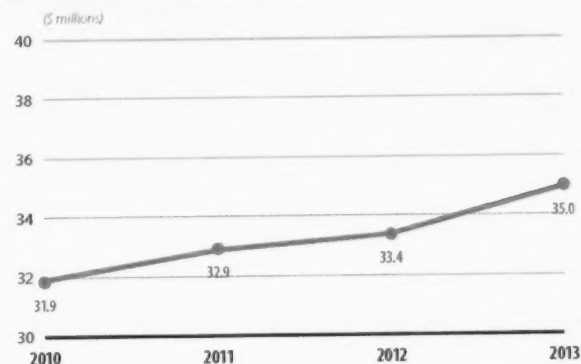
The Workers Compensation Board's revenue comes from two main sources: assessment revenue and investment income.

Assessment Revenue

Revenue from employers arises from two primary groups, assessed employers and self-insured employers. The total assessment revenue is a function of the assessment rate applied against the assessable payroll of each employer in the province. Revenue from self-insured employers includes the recovery of actual claim costs paid along with administration costs related to those claims.

Assessment revenue from assessed employers has been increasing and continues to increase in 2013. (Graphic 16)

Assessment Revenue (Graphic 16)



While the average assessment rate decreased slightly in 2013, the total assessable payroll continued to increase (see Table 1), resulting in increased revenue. As well, there were higher assessment revenues from a number of sectors, primarily the public sector, health care and manufacturing.

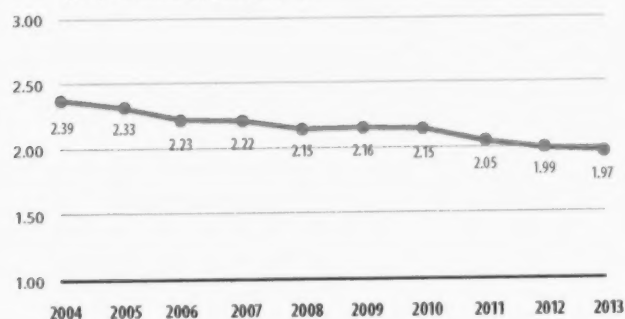
Assessable Employers, Average Assessment Rates and Assessable Payroll (by year) (Table 1)

| | 2013 | 2012 | 2011 |
|---|----------|----------|----------|
| Assessable Employers (Number) | 5,025 | 5,041 | 5,011 |
| Average Assessment Rate (\$ per \$100 assessable payroll) | 1.97 | \$1.99 | \$2.05 |
| Assessable Payroll (\$ millions) | 1,738.46 | 1,701.19 | 1,639.10 |

Since 2004, the WCB has provided for Island employers, a gradual decrease in the average assessment rate (*Graphic 17*), which is the average amount paid per \$100 of assessable payroll across the entire workers compensation system. As a result of the WCB's stable financial position and positive market returns, this trend continued in 2013 with a two cent reduction from the 2012 rate of \$1.99 to \$1.97.

Average Assessment Rate, 2004-2013

(\$ per \$100 of assessable payroll) (*Graphic 17*)



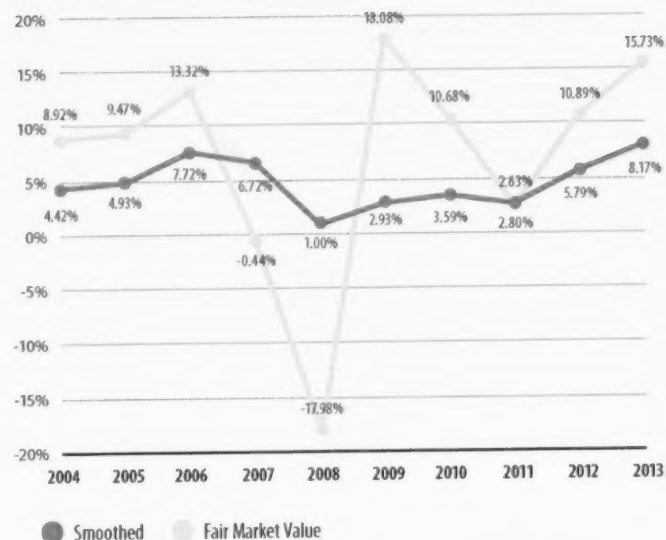
Investment Income

In 2013, the Workers Compensation Board of PEI had investment income of \$29.0 million. This was \$11.3 million higher than the investment income in 2012. A significant portion of the Accident Fund is invested in pooled funds with WorkSafeNB, the WCB's partner in its investment pool.

Investments are an important component of the WCB revenue stream as the capital invested plus investment income must cover claim payment obligations. Since compensation liabilities have an inflationary component, over time investment income must cover, at minimum, the inflationary component.

In 2013, the WCB's investment returns saw an increase from 2012, with a smoothed rate of 8.17% and a fair market value rate of 15.73%. As per IFRS Accounting Standards, investments have been recorded in the financial statements using the fair value method (recognizing the gains and losses in the year they occur), although investment revenue for funding policy purposes continues to be recorded using the smoothed method. Continued use of the smoothed method for funding policy purposes reduces the impact of volatile investment returns on assessment rates, as per the goals of the funding policy.

Investment Return (%), Smoothed and Fair Market Values (2004-2014) (Graphic 18)



* Under the smoothed method, gains or losses realized on disposal of fixed term income are deferred and amortized on a straight line basis over a nine year period. Realized and unrealized gains and losses on equity investments are deferred and amortized on a straight line basis over a four year period.

Expenses

The WCB's expenses primarily consist of claim costs and operating costs. Operating costs are those associated with the administration of the Workers Compensation Board, Worker and Employer Advisor Programs, Workers Compensation Appeals Tribunal, bad debt expenses and investment costs.

Claim Costs for Assessed Employers, 2013 and 2012, (\$ thousands) *(Table 2)*

| | 2013 | | | 2012 | | |
|--------------------------------|------------------|--|---------------|------------------|--|---------------|
| | Benefit Payments | Change in actuarial valuation of benefit liabilities | Total | Benefit Payments | Change in actuarial valuation of benefit liabilities | Total |
| Temporary Wage Loss | 7,003 | 1,976 | 8,979 | 6,696 | 2,038 | 8,734 |
| Pension and Extended Wage Loss | 8,137 | 2,319 | 10,456 | 8,068 | -950 | 7,118 |
| Health Care | 6,609 | -1,113 | 5,496 | 6,917 | 1,500 | 8,417 |
| Rehabilitation | 669 | -216 | 453 | 472 | 854 | -382 |
| Claim Administration | 1,457 | 193 | 1,650 | 1,440 | 113 | 1,553 |
| Total | 23,875 | 3,159 | 27,034 | 23,593 | 1,847 | 25,440 |

The primary expenses associated with claim costs are benefit payments and the change in actuarial valuation of benefits. The estimation of outstanding benefit liabilities involves a variety of actuarial techniques that analyze experience, trends and other relevant factors, based largely on the assumption that past developments are an appropriate predictor of the future. This process involves an actuarial projection of future claims costs and administration costs incurred to the end of the reporting year (2013). It is also during this process that variances in the previous liabilities estimated (i.e., lower or higher actuarial liabilities than previously anticipated) can result in an increase (gain) or decrease (loss) to total income.

Overall for 2013 there is a \$4.9/8 million gain (*Experience gains, page 68*). Although it is normal to experience a gain or loss in the various categories that are factored into the liabilities, the primary factors attributing to this net result in 2013 were the following:

- 2013 Temporary Wage Loss (TWL) payments were higher than expected (loss).
- Pension liability was reduced as payments decreased for this closed group of claims (gain).
- Fewer than expected Extended Wage Loss (EWL) claims were established in 2013 and the cost of new EWLs granted in 2013 was lower than expected (gain).
- 2013 health care payments were slightly higher than expected, but health care payments for claims with longer durations were lower than expected and longer duration claims have a greater effect on liabilities (gain).



Operating Costs

The Workers Compensation Board administration costs in 2013 have increased slightly from 2012, although costs were 6% lower than the projected budget. The WCB continues to put plans in place to minimize annual administration cost increases that can result from rising costs of goods and services. Increases in specific operating costs were offset by decreases in others.

The total administration costs are reduced by the claim administration costs, which relate to the portion of operating costs sustained to adjudicate compensation claims, manage claims and process claim payments. These payments are included as a claim cost, a standardized financial statement presentation used by workers compensation organizations in Canada.

Operating Costs, 2013 and 2012 (\$ millions) (Table 5)

| | 2013 | 2012 |
|---------------------------------------|------------------|------------------|
| Administration | 7,367,518 | 7,364,659 |
| Appeals Tribunal and Advisors | | |
| Worker Advisor | 162,776 | 157,759 |
| Employer Advisor | 120,188 | 120,297 |
| Workers Compensation Appeals Tribunal | 135,198 | 134,435 |
| Investment Management Expenses | 974,510 | 778,627 |
| Bad Debt expenses | 363,154 | 136,047 |
| Total | 9,123,344 | 8,691,824 |

As expected, investment management expenses increased in 2013 due to the growth in the investment fund of \$29 million over 2012. Bad debt expenses increased compared to 2012, primarily due to increased diligence in the categorizing of employer accounts receivable.


Funded Balance

A fully funded compensation system is essential to secure the financial obligations associated with the payment of current and future worker benefits, as well as to fund the effective administration of the workers compensation system.

By legislation, the Workers Compensation Board of PEI is required to maintain a fully funded status, or where it does not, to have a plan by which it will be fully funded within a defined number of years. Being in a fully funded position means that the Board, if it were to close its doors today and collect no more assessments from employers, is in a position to pay all of the benefits to which injured workers and their dependants are entitled for the entirety of their claims.

In keeping with our strategic objective to ensure long term financial sustainability, we maintained a funded position (accumulated surplus) of \$58.9 million at the end of 2013. The funded position balance has been increasing primarily due to strong investment returns, and is one factor which can assist in reducing the average assessment rate over time.

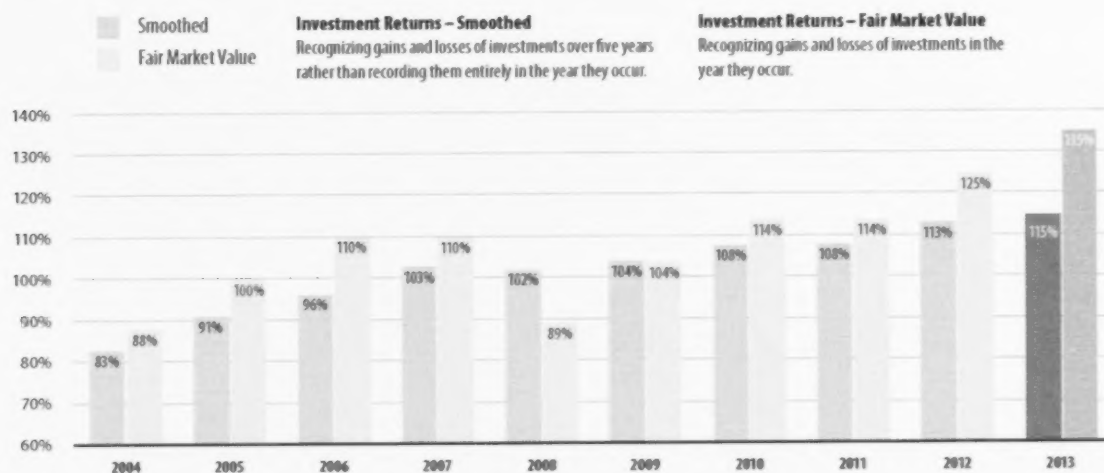




Funded Position

In 2013, the WCB's funded position climbed to a smoothed rate of 115.4% and a fair market rate of 135.3%. This healthy financial position enables the WCB to focus on proactive efforts to prevent injury, assist injured workers in returning to work, and monitor and control costs.

Funded Position *(Graphic 10)*



The WCB has a funding policy in place to maintain a stable funded position in the range of 100-110%. If the funded position falls outside of this range, above or below, the WCB will take measures to bring it back inside the range. The policy states that when the WCB's smoothed funding position exceeds the 110%, excess revenues will be considered in the rate setting process. This means that the healthy financial position may translate into further cost savings for Island employers in the 2015 rates. The smoothed rate, as opposed to the fair market rate, is considered in the funding policy because it ensures that annual assessment rates are based on a long-term rate of return rather than volatile annual investment returns, thereby providing a buffer from market volatility for employers.

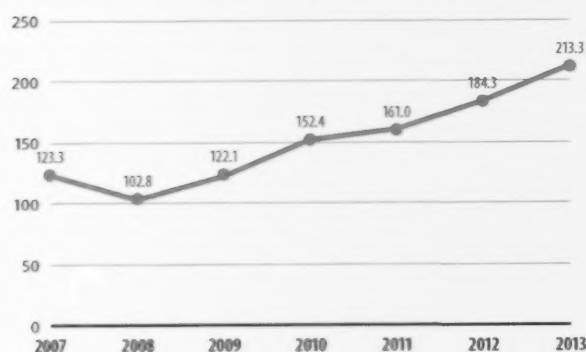
This healthy financial position
enables the WCB to focus on proactive efforts to prevent injury
and assist injured workers in returning to work.

Balance Sheet

Investments

One of the largest and most significant components of the WCB's balance sheet is its investment portfolio. In 2013, the portfolio increased in value from \$184M to \$213M. This increase reflects the \$29 million of investment income.

Investment Fund (\$millions), 2007-2013 (Graphic 20)



Benefit Liabilities

The other largest and most important component of WCB's balance sheet is its benefit liabilities. In 2013, total benefit liabilities increased by \$10.1 million, or 6.7%.

The calculated liabilities represent the actuarial present value of all future benefits expected to be paid as a result of injuries that occurred on or before December 31, 2013. The liabilities include a provision for future administrative expenses. Note 11 (page 68) of the financial statement provides a detailed overview of the benefit liabilities.

The general methods and assumptions used to prepare the valuation are unchanged from those used to prepare the December 2012 valuation. The most significant assumptions underlying the valuation are a real rate of return of 3.50% per annum and a long-term inflation rate of 3.00% per annum.

Effective with this valuation, liabilities now include a provision for occupational disease claims expected to be diagnosed after December 31, 2013, as a result of exposures assumed to have occurred in the workplace prior to December 31, 2013. This represents approximately \$7 million of the \$10.1 million increase. To this point, inclusion of these unreported claims in the valuation has been optional. The new actuarial standards of practice (effective March 15, 2011) state that for valuation dates on and after December 31, 2014, allowance for all occupational disease claims in the latency stage for recognized occupational disease must be included in the valuation. The standard allows for early adoption, which the WCB was able to recognize in 2013 due to its strong financial position.

The liabilities also reflect recently enacted legislative changes. The following amendments to the *Workers Compensation Act*, which came into effect January 1, 2014, had an impact of approximately \$1.5 million on the liabilities for this reporting period:

- *Increase in Wage Loss Benefit from 80% to 85% of Net Insurable Earnings.* PEI's wage loss benefit was 80% of net insurable earnings for the first 38 weeks of temporary wage loss (TWL) and 85% thereafter. The legislation was amended to set TWL benefits at 85% of earnings throughout the claim period.
- *Increase in Indexation of Benefits from 75% to 80% of the Consumer Price Index (CPI).* Previously, the *Workers Compensation Act* provided for an adjustment of long term benefits on July 1st of each year in an amount equal to the lesser of either a change of 4% or 75% of the percentage change in the CPI for Charlottetown and Summerside.

Benefits Liabilities (\$ thousands), 2013 and 2012 (Table 4)

| | 2013 | 2012 |
|--------------------------------|----------------|----------------|
| Temporary Wage Loss | 10,816 | 9,109 |
| Pension and Extended Wage Loss | 98,458 | 97,252 |
| Health Care | 32,441 | 33,554 |
| Rehabilitation | 2,253 | 2,486 |
| Administration | 9,358 | 9,256 |
| Legislative Changes | 1,490 | - |
| Occupational Diseases | 6,967 | - |
| Total | 161,783 | 151,657 |

We expect the Board to maintain strong financial results despite the potential for fluctuations and erratic movements of the investment market.

We will also continue to be prudent when recognizing investment gains and losses over a reasonable time period when setting rates and evaluating the funding strategy.

We know that our efforts to build a return to work and safety culture on Prince Edward Island will be bolstered through participation in our community. As good corporate citizens, doing our part to make our Island a better place is simply the right thing to do.





One of the WCB's . . .

most important governance responsibilities
is to secure the future of the system.

Financial Reports

Eckler

ACTUARIAL CERTIFICATE

We have completed an actuarial valuation of the benefit liabilities for insured employers under the Workers Compensation Act of Prince Edward Island (the "Act") as at December 31, 2013, for the purpose of providing input to the Financial Statements of the Workers Compensation Board of Prince Edward Island (the "Board"). The valuation is in respect of assessed firms only, and does not include any provision for future payments in respect of self-insured firms.

Our estimate of the benefits liabilities of \$161,783,000 represents the actuarial present value at December 31, 2013, of all expected benefit payments which will be made in future years, and which relate to claims arising from events which occurred on or before December 31, 2013. The liabilities include a provision for future administrative expenses based on a study conducted by Board staff. The liabilities also include a provision for outstanding latent occupational disease awards. No allowance has been made in these liabilities for any future deviations from the present policies and practices of the Board or for the extension of new coverage types.

Data required for the valuation has been provided by the Board. We have reviewed the valuation data to test for reasonableness and consistency with the data used in prior years.

The liabilities have been allocated into five categories, namely: temporary wage loss, pensions and extended wage loss, health care, rehabilitation and administration.

All liabilities have been calculated using underlying assumptions of 3.50% per annum for the real rate of return on invested assets and 3.00% per annum for the rate of increase in the Consumer Price Index.

The CPI assumption equates to inflation rates for indexing benefits of 2.40% per annum in respect of pensions, extended wage loss and survivor benefits, because (effective July 1, 2014) indexing for these benefits is specified under the Act as 80% of the rate of increase in the Consumer Price Index. No indexing is applied to Section 43 awards in-pay in accordance with Board policy.

Liabilities in respect of permanent extended wage loss, pensions, and Section 43 awards in-pay have been determined by projecting cash flows on an individual claimant basis using mortality as the only decrement.

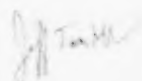
Liabilities in respect of future extended wage loss and Section 43 awards have been determined based on factors developed from historical patterns of awards, and using mortality, interest, and inflation assumptions identical to those used in determining the existing extended wage loss and Section 43 liabilities.

The liabilities in respect of temporary wage loss, health care, rehabilitation and permanent impairment lump sum awards have been determined from projections of future claim payments. These projections have been based on continuation of recent payment patterns by years since the injury. An inflation rate of 3.00% per annum has been used to project future cash flows for temporary wage loss, wage-related rehabilitation, and permanent impairment lump sums. For health care and non-wage related rehabilitation, we used an inflation rate of 4.75% per annum reflecting the greater expected inflation and utilization rate for these benefit categories.

It is our opinion that

- the data are sufficient and reliable for the purpose of this valuation;
- the actuarial assumptions and the methods employed are appropriate for the purpose of the valuation;
- the amount of benefit liabilities makes appropriate provision for future benefit payments on accidents incurred prior to the valuation date; and
- our valuation report has been prepared and our opinions have been given in accordance with accepted actuarial practice in Canada.

Further information on the data, assumptions, methods, and valuation results can be found in our actuarial valuation report.



Jeff Turnbull
FSA FCIA



Scott Moesman
FSA FCIA



Independent auditor's report

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To the members of the Board of the

Workers Compensation Board of Prince Edward Island

We have audited the accompanying financial statements of the Workers Compensation Board of Prince Edward Island, which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, changes in fund balance and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Workers Compensation Board of Prince Edward Island as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Charlottetown, Prince Edward Island

April 3, 2014

Chartered Accountants

Workers Compensation Board of Prince Edward Island

Statements of comprehensive income

| Year ended December 31 | Notes | 2013 | 2012 |
|--|-------|----------------------|----------------------|
| Revenues | | | |
| Current assessments | | \$ 35,048,631 | \$ 33,375,815 |
| Self-insured employers | 12 | 1,041,314 | 1,054,525 |
| Investments | 4 | 29,011,805 | 17,746,497 |
| Interest on receivables | | 267,491 | 185,925 |
| Recoverable administration fees and interest charges to self-insured employers | 12 | <u>335,667</u> | <u>346,573</u> |
| | | <u>65,704,908</u> | <u>52,709,335</u> |
| Expenses | | | |
| Claims cost expenses | | | |
| Expected increase | 11 | 9,757,000 | 9,624,000 |
| Experience gains | 11 | (4,978,000) | (4,254,000) |
| Claims and administrative costs incurred | 11 | 20,765,000 | 20,070,000 |
| Latent occupational disease costs incurred | 11 | 6,967,000 | - |
| Legislative changes | 11 | 1,490,000 | - |
| Other experience losses | | 1,166,000 | 129,000 |
| Claims costs incurred for self-insured employers | 12 | <u>1,041,314</u> | <u>1,054,525</u> |
| | | <u>36,208,314</u> | <u>26,623,525</u> |
| Administration expenses | | | |
| Administration (Page 75) | | 7,367,518 | 7,364,659 |
| Workers' Advisor Program | 14 | 162,776 | 157,759 |
| Employers' Advisor Program | 14 | 120,188 | 120,297 |
| Appeals Tribunal | 14 | <u>135,198</u> | <u>134,435</u> |
| | | <u>7,785,680</u> | <u>7,777,150</u> |
| Other expenses | | | |
| Investment management expenses | 4 | 974,510 | 778,627 |
| Bad debt expense | | <u>363,154</u> | <u>136,047</u> |
| | | <u>1,337,664</u> | <u>914,674</u> |
| Total expenses | | <u>45,331,658</u> | <u>35,315,349</u> |
| Excess of revenues over expenses | | <u>\$ 20,373,250</u> | <u>\$ 17,393,986</u> |
| Other comprehensive income (loss) | | | |
| Items that will not be classified in the statement of operations | | | |
| Change in actuarial gains and losses | | <u>\$ 98,996</u> | <u>\$ (62,234)</u> |
| Total comprehensive revenues over expenditures | | <u>\$ 20,472,246</u> | <u>\$ 17,331,752</u> |

See accompanying notes to the financial statements.

Workers Compensation Board of Prince Edward Island **Statements of changes in fund balance**

Year ended December 31

| | <u>Fund balance</u> | <u>Total Accumulated comprehensive (loss)</u> | <u>Total fund balance</u> |
|----------------------------------|-------------------------|---|-----------------------------------|
| Balance, January 1, 2013 | \$ 38,549,135 | \$ (143,601) | \$ 38,405,534 |
| Excess of revenues over expenses | 20,373,253 | - | 20,373,253 |
| Other comprehensive income | - | 98,996 | 98,996 |
| Balance, December 31, 2013 | <u>\$ 58,922,388</u> | <u>\$ (44,605)</u> | <u>\$ 58,877,783</u> |

| | <u>Fund balance</u> | <u>Total Accumulated comprehensive (loss)</u> | <u>Total fund balance</u> |
|----------------------------------|-------------------------|---|-----------------------------------|
| Balance, January 1, 2012 | \$ 21,155,149 | \$ (81,367) | \$ 21,073,782 |
| Excess of revenues over expenses | 17,393,986 | - | 17,393,986 |
| Other comprehensive (loss) | - | (62,234) | (62,234) |
| Balance, December 31, 2012 | <u>\$ 38,549,135</u> | <u>\$ (143,601)</u> | <u>\$ 38,405,534</u> |



Workers Compensation Board of Prince Edward Island

Statement of Financial Position

December 31

| | Notes | 2013 | 2012 |
|-------------------------------------|-------|-----------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | | \$ 8,497,183 | \$ 4,949,353 |
| Receivables | 3 | 961,055 | 1,554,472 |
| Investments | 4 | 213,337,735 | 184,284,447 |
| Property and equipment | 6 | 1,460,477 | 1,510,822 |
| Intangible assets | 7 | 1,556,673 | 1,878,609 |
| | | <u>\$ 225,813,123</u> | <u>\$ 194,177,703</u> |
| Liabilities and fund balance | | | |
| Payables and accruals | 9 | \$ 3,757,340 | \$ 2,762,169 |
| Employee future benefits | 10 | 1,395,000 | 1,353,000 |
| Benefits liabilities | 11 | 161,783,000 | 151,657,000 |
| | | <u>166,935,340</u> | <u>155,772,169</u> |
| Fund balance | 13 | <u>58,877,783</u> | <u>38,405,534</u> |
| | | <u>\$ 225,813,123</u> | <u>\$ 194,177,703</u> |

On behalf of the Board

Nancy E. Hupstall Chair

Sharon Cameron Chief Executive Officer

See accompanying notes to the financial statements.

Workers Compensation Board of Prince Edward Island

Statement of cash flows

Year ended December 31

2013

2012

Cash flow from operating activities

| | | |
|---|---------------------|---------------------|
| Cash received from: | | |
| Assessed employers | \$ 35,432,186 | \$ 33,113,354 |
| Self insured employers for assessments | 1,035,903 | 1,060,968 |
| Investments and other | 4,124,971 | 4,229,370 |
| | <u>40,593,060</u> | <u>38,403,692</u> |
| Cash paid: | | |
| To claimants or third parties on their behalf | (23,459,278) | (23,207,525) |
| For administration requirements and other goods | (3,211,252) | (2,675,934) |
| For salaries to employees | (5,935,600) | (5,782,721) |
| | <u>(32,606,130)</u> | <u>(31,666,180)</u> |
| Net cash provided by operating activities | <u>7,986,930</u> | <u>6,737,512</u> |

Cash flow from investing activities

| | | |
|--|---------------------|---------------------|
| Cash received from: | | |
| Sale of investments | <u>44,728,643</u> | <u>48,231,390</u> |
| Cash paid for: | | |
| Purchase of investments | (48,956,620) | (58,273,958) |
| Purchase of intangible assets | (108,808) | (199,132) |
| Purchase of property and equipment | (102,315) | (142,969) |
| | <u>(49,167,743)</u> | <u>(58,616,059)</u> |
| Net cash used in investing activities | <u>(4,439,100)</u> | <u>(10,384,669)</u> |
| Net increase (decrease) in cash and cash equivalents | 3,547,830 | (3,647,157) |
| Cash and cash equivalents | | |
| Beginning of year | <u>4,949,353</u> | <u>8,596,510</u> |
| End of year | <u>\$ 8,497,183</u> | <u>\$ 4,949,353</u> |

See accompanying notes to the financial statements.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

1. Nature of operations

The Workers Compensation Board of Prince Edward Island ("the Board") was established by the Prince Edward Island Legislature in 1949 under the *Workers Compensation Act*. The Board has a mandate for the administration of a workers' compensation system as defined by the *Workers Compensation Act* and for the administration of health and safety programs as defined by the *Occupational Health and Safety Act*. The Board's head office is located in Charlottetown, Prince Edward Island, Canada.

The nature of operations includes administering payments of benefits to or on behalf of workers, levying and collecting assessment revenues from employers, investing Board funds, inspecting Prince Edward Island workplaces, enforcing health and safety standards defined by legislation and delivering health and safety education and prevention programs. The current *Workers Compensation Act* became effective on January 1, 1995. The current *Occupational Health & Safety Act* became effective on May 20, 2006.

The Board does not receive government funding.

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on April 3, 2014.

2. Summary of significant accounting policies

Basis of presentation and adoption of IFRS

The financial statements of the Board have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the Workers Compensation Board of Prince Edward Island comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at December 31, 2013.

The principal accounting policies applied in the preparation of the financial statement are set out below. These policies have been consistently applied, except where departure from IFRS is explicitly permitted under the transitional provisions for first time application of IFRS or another IFRS.

Basis of measurement

The financial statements of the Board have been prepared on a historical cost basis except for investments in the statement of financial position that are reported at fair value. The Board's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Board operates, which is also the presentation currency of the financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Cash and short term investments held by custodians for investment purposes are not available for general use and, accordingly, are included in investments.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the closing rate, which is the spot exchange rate in effect at the date of the statement of financial position. Exchange differences arising from settlement of monetary items and the subsequent translation of monetary items are included in the statement of operations in the period in which they arise.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

2. Summary of significant accounting policies (cont'd)

Accounting estimates and measurement uncertainty

The preparation of financial statements in conformity with IFRS requires the use of judgements, assumptions, and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Benefit liabilities, employee future benefits, accrued assessments, allowance for doubtful accounts and depreciation are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods. See Note 11 for additional details on benefit liabilities.

Revenue recognition

The Board recognizes revenue when services have been provided, it is probable that the associated economic benefits will flow to the Board and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. The Board's primary source of revenue is assessed premiums.

Self-insured employers are subject to individual responsibility for costs attributable to claims arising from their employees, as well as administration expenses incurred on behalf of the self-insured employers. As such, assessment revenues from self-insured employers are recognized as these costs are incurred.

Specific accounting policies

To facilitate a better understanding of the Board's financial statements, significant accounting policies are disclosed in the notes, where applicable, of the related accounting topics. A listing of these notes is as follows:

| Note | Topic | Page |
|------|--------------------------|------|
| 3 | Receivables | 54 |
| 4 | Investments | 55 |
| 6 | Property and equipment | 61 |
| 7 | Intangible assets | 62 |
| 9 | Payables and accruals | 63 |
| 10 | Employee future benefits | 64 |
| 11 | Benefits liabilities | 65 |
| 12 | Self-insured employers | 72 |

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

2. Summary of significant accounting policies (cont'd)

Changes in accounting policies

The Board applied IAS 19, Employee Benefits (revised 2011) ("IAS 19R") retrospectively in the current period in accordance with the transitional provision set out in the revised standard. The opening statement of financial position of the earliest comparative period presented and the comparative figures have been accordingly restated. Upon transition to IAS 19R in 2013, there was an adjustment to the comparative figures as the actuarial gains and losses on post-retirement benefits are recorded through other comprehensive income.

During the year, the Board adopted IFRS 13 Fair Value Measurement on a prospective basis. IFRS 13 replaces the fair market value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. The adoption of IFRS 13 did not have a material impact on the fair value measurements carried out by the Board.

Future Accounting Standards and Reporting Changes

In December 2013, the IASB issued narrow scope amendments to a total of nine standards as part of its annual improvement process. Amendments were made to clarify items including the measurement of short term receivables and payables under IFRS 13 Fair Value Measurement, definition of related party in IAS 24 Related Party Disclosures and other amendments. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. The Board intends to adopt these amendments in its financial statements for the annual period beginning January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

The IASB is currently working on revisions to IFRS 4 (Insurance Contracts), IAS 17 (Leases), and IAS 18 (Revenues). At the current time, the impact of proposed revisions is not determinable.

3. Receivables

Accounting Policy

Trade receivables are amounts due from employers for assessed premiums, or estimated premiums, when a final return for insurance coverage for the period has not been filed. Assessed premiums receivable are initially recognized at the invoiced amount and, subsequently, measured at recoverable value that is net of a provision for uncollectible amounts. Trade and other receivables are classified as financial assets and are recorded at amortized cost.

At the beginning of each year, an assessment is levied on non-monthly employers by applying industry assessment rates to their estimated payrolls. During the year, employers' actual payrolls may vary from their estimate; therefore, at year end, accrued assessments receivable are adjusted based on payroll adjustments from the prior year. The accrued assessments are determined excluding those employers whose assessments are levied on a monthly basis.

Other receivables include amounts due from employees for computer purchases and other payroll related items.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

3. Receivables (cont'd)

| | <u>2013</u> | <u>2012</u> |
|--------------------------------------|-------------------|---------------------|
| Receivables | | |
| Assessments | \$ 1,853,724 | \$ 1,606,303 |
| Less allowance for doubtful accounts | (358,482) | (141,400) |
| Accrued assessments | (576,908) | 54,067 |
| Self-insured employers | (29,658) | (35,032) |
| Other receivables | 72,379 | 70,534 |
| | <u>\$ 961,055</u> | <u>\$ 1,554,472</u> |

4. Investments

Accounting Policy

All the Board's portfolio investments, except real-return bonds, are mandatorily classified as fair value through profit or loss investments. Real return bonds have been designated by the Board as fair value through profit or loss as permitted under IFRS 9. As such, all portfolio investments are recorded at their fair value. The Board recognizes interest revenue as earned, dividends when declared and investment gains and losses when realized. Realized gains and losses represent the difference between the amounts received through the sale of the investments and their respective cost base. Unrealized gains and losses on fair value through profit or loss investments are recognized as investment income at year end based on the fair value of the investments at that time. When an investment is sold, the cumulative unrealized gain or loss is reclassified as a realized gain or loss in investment income on the statement of operations. Investment income also includes interest income and income distributions from pooled funds. The Board utilizes trade date accounting for all purchases and sales of financial instruments in its investment portfolio. Transactions are recorded on the date an agreement is entered (the trade date) and not on the date the transaction is finalized (the settlement date). Investments denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the statement of financial position date. Revenues and expenses are translated at the exchange rates in effect on the transactions date. The foreign currency exchange gains or losses for these investments are recorded in the same manner as other investment gains or losses.

Fair values of specific investments are determined as follows:

- Equities are valued at their year end quoted market prices as reported on recognized public securities exchange.
- Fixed-term investments are valued at their year end closing or bid price based on available public quotations from recognized dealers in such securities.
- Commercial paper, short term notes and treasury bills and term deposits maturing within a year are valued at either their year end closing or bid price based on available quotations from recognized dealers in such securities, or cost plus accrued interest, which approximates fair value.
- Pooled fund units are valued at their year-end net asset value, as determined by the fund manager or administrator. For equity and fixed-income pooled funds, these values represent the Board's proportionate share of underlying net assets at fair values determined using either quoted market prices or year-end closing market prices or the average of the latest bid/ask prices based on available public quotations from recognized dealers in such securities. For real estate pooled funds, these values represent the Board's proportionate share of the underlying net assets at fair values determined using independent appraisals, net of any liabilities against the fund assets. For infrastructure pooled funds, these values represent the Board's proportionate share of the underlying net assets at fair values estimated using one or more methodologies, including discounted cash flows, multiples of earnings measures, and recent comparable transactions. In the first year of ownership, cost is considered to be an appropriate estimate of fair value.
- Forward foreign exchange contracts are valued at their net unrealized gain or loss, based on quoted market exchange rates at the balance sheet date. The Board has not designated the forward exchange contracts as a hedging instrument. Any changes in the fair market value of the instruments are recognized directly into earnings.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

4. Investments (cont'd)

| | <u>2013</u> | <u>2012</u> |
|--------------------------------------|-----------------------|-----------------------|
| Investments | | |
| Cash and short term investments | \$ 7,742,073 | \$ 1,898,003 |
| Forward foreign exchange contracts | (688,262) | (113,813) |
| Real estate | 30,782,971 | 27,682,355 |
| Fixed terms investments | 53,835,672 | 53,345,830 |
| Infrastructure | 391,213 | - |
| Equities | <u>121,274,068</u> | <u>101,472,072</u> |
| | <u>\$ 213,337,735</u> | <u>\$ 184,284,447</u> |
| Investment income | | |
| Earned during the year | \$ 4,827,999 | \$ 4,815,539 |
| Realized investment gains | 11,589,010 | 4,668,413 |
| Change in unrealized investment gain | <u>12,594,796</u> | <u>8,262,545</u> |
| | <u>\$ 29,011,805</u> | <u>\$ 17,746,497</u> |
| Investment expenses | | |
| External management fees | \$ 764,631 | \$ 615,738 |
| Management fees paid to Worksafe NB | <u>209,879</u> | <u>162,889</u> |
| | <u>\$ 974,510</u> | <u>\$ 778,627</u> |

Pooled funds

Certain of the Board's portfolio investments are held through pooled funds. The fair value of the investments held through pooled funds is as follows:

| | <u>2013</u> | <u>2012</u> |
|-----------------------------|----------------------|----------------------|
| Conventional bonds | \$ 33,080,570 | \$ 44,508,306 |
| Real return bonds | 7,908,531 | 8,837,065 |
| Non North American equities | 8,492,831 | 7,136,194 |
| Real estate | 30,782,971 | 27,682,355 |
| Infrastructure | <u>391,213</u> | <u>-</u> |
| | <u>\$ 80,656,116</u> | <u>\$ 88,163,920</u> |

Investment agreement

The Board has entered into an Investment Agreement (January 1995) for the management of its investment assets with those of Worksafe NB. These financial statements report the Board's proportionate share of the investment assets held in the pooled fund which was 13.96% at December 31, 2013 (2012 - 13.57%). The Board pays a fee to Worksafe NB for the administration of the combined investments.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

5. Financial risk management

The Board has established policies for management of its investments. All of the Board's pooled investments are managed by independent, external investment managers. The compliance of these managers with the established policies is monitored on a regular basis. The pooled investments are managed to reduce investment risk by diversifying its portfolio among asset classes, industry sectors, geographic locations and individual securities. Further diversification is achieved by selecting investment managers with varying investment philosophies and styles. From time to time, in conjunction with WorkSafe NB, independent consultants are retained to advise on the appropriateness and effectiveness of its investment policies and practices.

The following sections describe the Board's financial risk exposure and related mitigation strategies.

Market risk

The Board invests in publicly traded equities listed on domestic and foreign exchanges, and bonds traded over the counter through broker dealers. These securities are affected by fluctuations in market prices. Such market changes are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks to issuers, which may affect the market value of individual securities. Policy guidelines have been established to ensure that the Board's investments are diversified by issuer, industry and geographic location.

The table below indicates the total exposure in each of the equity mandates within the Board's portfolio:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|-----------------------|-----------------------|
| Canada | \$ 36,066,181 | \$ 33,000,129 |
| United States | 38,802,892 | 29,641,183 |
| International equities | 37,910,331 | 31,654,175 |
| Canadian commercial real estate | 30,782,971 | 27,682,355 |
| Emerging markets | <u>8,494,664</u> | <u>7,176,586</u> |
| | <u>\$ 152,057,039</u> | <u>\$ 129,154,428</u> |

The table below presents the effect of a change in value of equities held based on management estimates for each of the equity mandates in the Boards' portfolio:

| | <u>2013</u> | | | |
|---------------------------------|--------------|--------------|----------------|----------------|
| Equities | | | | |
| Change in market value | <u>15%</u> | <u>5%</u> | <u>-5%</u> | <u>-15%</u> |
| Impact on fund balance | | | | |
| Canadian | \$ 5,410,000 | \$ 1,803,000 | \$ (1,717,000) | \$ (4,704,000) |
| United States | 5,820,000 | 1,940,000 | (1,848,000) | (5,061,000) |
| International equities | 5,687,000 | 1,896,000 | (1,805,000) | (4,945,000) |
| Canadian commercial real estate | 4,617,000 | 1,539,000 | (1,466,000) | (4,015,000) |
| Emerging markets | 1,274,000 | 425,000 | (405,000) | (1,108,000) |

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

5. Financial risk management (cont'd)

| Equities Change in market value | 2012 | | | |
|------------------------------------|--------------|--------------|----------------|----------------|
| | 15% | 5% | -5% | -15% |
| Impact on fund balance | | | | |
| Canadian | \$ 4,950,000 | \$ 1,650,000 | \$ (1,571,000) | \$ (4,304,000) |
| United States | 4,446,000 | 1,482,000 | (1,411,000) | (4,866,000) |
| International equities | 4,748,000 | 1,583,000 | (1,507,000) | (4,129,000) |
| Canadian commercial real estate | 4,152,000 | 1,384,000 | (1,318,000) | (3,611,000) |
| Emerging markets | 1,076,000 | 359,000 | (342,000) | (936,000) |

Foreign currency risk

The Board has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. For its U.S. and non North American equities, the Board has adopted a policy to hedge 50% of its developed market foreign currency exposure using forward exchange contracts. Forward foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract's inception. The fair value of these financial instruments would change in response to changes in the foreign exchange rates of the currencies involved in the contracts. The notional amounts in forward foreign exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts. Outstanding contracts from 2013 mature in the first three months of 2014.

The Board has significant current exposure in the US dollar, the Euro, the Japanese Yen and the British Pound. Exposure to changes in these four currencies represents 86% of the Board's total exposure to developed market foreign currencies and 74.6% of the total foreign currency exposure including emerging markets. The Board has holdings of \$37,712,000 (2012 - \$30,985,000) in US dollar or 17.7% of the portfolio, \$10,185,000 (2012 - \$7,367,000) or 4.8% in the Euro, \$7,982,000 (2012 - \$6,347,000) or 3.7% in the Japanese Yen, and \$7,784,000 (2012 - \$6,364,000) or 3.7% in the British Pound.

The table below presents the effects of a 15% appreciation in the Canadian dollar as compared to the US dollar, Euro, Japanese Yen and British Pound on the fund balance:

| | 2013 | 2012 |
|-----------|----------------|----------------|
| CAD/USD | \$ (4,919,000) | \$ (4,042,000) |
| CAD/EURO | \$ (1,329,000) | \$ (961,000) |
| CAD/YEN | \$ (1,041,000) | \$ (828,000) |
| CAD/POUND | \$ (1,015,000) | \$ (830,000) |

At December 31, 2013, the notional value of outstanding forward foreign exchange contracts was \$35,442,735 (2012: \$28,626,084). The fair value of these contracts was a loss of \$688,262 (2012: loss of \$113,813). Unrealized losses on forward foreign exchange contracts of \$685,300 (2012: losses of \$624,972) were included in investment income.

Inflation risk

Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets. To mitigate the effect of inflation on the Board's future liabilities, the portfolio holds inflation sensitive investments, such as real return bonds and real estate. Canadian real return bonds are indexed to the annual change in the Canadian Consumer Price Index.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

5. Financial risk management (cont'd)

Interest risk management

Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates. The Board's investment portfolio is exposed to interest rate risk from its holdings of fixed income securities. Fluctuations in interest rates are managed by varying the duration of the fixed income portfolio. The following table presents the remaining term to maturity of the Board's outstanding fixed term investments.

| | <u>Remaining term to maturity</u> | | | <u>Total</u> | <u>Total</u> |
|--|-----------------------------------|-------------------------------|----------------------|----------------------|----------------------|
| | <u>Within 1 year</u> | <u>From 1 year to 5 years</u> | <u>Over 5 years</u> | <u>2013</u> | <u>2012</u> |
| Fixed term investments (market value) | <u>\$ 779,171</u> | <u>\$ 12,663,888</u> | <u>\$ 40,392,613</u> | <u>\$ 53,835,672</u> | <u>\$ 53,345,830</u> |

The average effective yield of these fixed term investments is 2.6% (2012 – 2.0%) per annum based on market value.

As of December 31, 2013, had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the fixed term investments would have increased or decreased by \$4,700,000 (2012 – \$5,300,000) or approximately 8.84% (2012 – 10.0%) of their value.

Credit risk management

Credit risk on fixed term or money market investments or forward foreign exchange contracts arises from the possibility that the counterparty to an instrument fails to meet its obligation to the Board. Policy guidelines have been established to ensure the Board holds corporate fixed term investments with a credit rating of A or higher, and Canadian federal or provincial government fixed term investments with a credit rating of BBB or higher. The Board may only invest in money market instruments that are provincially or federally guaranteed by one of the five largest Canadian chartered banks. Counterparties to forward foreign exchange contracts must have a credit rating of at least AA-. As at December 31, 2013, the aggregate amount of fixed income securities with counterparty ratings of BBB was \$nil (2012 – \$nil).

The Board is also exposed to credit risk through its trade receivables. The Board mitigates this risk through a regular monitoring process. Credit risk is mitigated due to the large number of customers and their dispersion across geographic areas and various industries. Allowance for doubtful accounts is reviewed at each balance sheet date. The Board updates its estimates of allowances for doubtful accounts based on customer history.

Fair value hierarchy

In compliance with IFRS 7, Financial Instruments – Disclosures, the Board has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Board's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

5. Financial risk management (cont'd)

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------------|----------------------|---------------------|-------------------|----------------------|
| Cash and cash equivalents | \$ 7,742,073 | \$ - | \$ - | \$ 7,742,073 |
| Investments | | | | |
| Forward foreign exchange contracts | - | (688,262) | - | (688,262) |
| Real estate | 30,782,971 | - | - | 30,782,971 |
| Fixed term | 53,835,672 | - | - | 53,835,672 |
| Infrastructure | - | - | 391,213 | 391,213 |
| Equities | <u>121,274,068</u> | <u>-</u> | <u>-</u> | <u>121,274,068</u> |
| | <u>\$213,634,784</u> | <u>\$ (688,262)</u> | <u>\$ 391,213</u> | <u>\$213,337,735</u> |

During 2013 and 2012, there were no significant transfers of investments between level 1 and level 2.

The following summarizes the changes in the level 3 investments for the year:

| | <u>2013</u> |
|---------------------------------|-------------------|
| Balance beginning of the year | \$ - |
| Purchase of level 3 investments | 439,430 |
| Investment income | 1,999 |
| Unrealized losses recognized | <u>(50,216)</u> |
| Balance at end of the year | <u>\$ 391,213</u> |

The investment classified as level 3 above consists of a limited partnership interest in a fund investing in global infrastructure assets. This is a closed-end fund with no active market for its units and no published net assets as at December 31, 2013, and therefore classified as a level 3 investment in the fair market hierarchy.

Liquidity risk

Liquidity risk is the risk that the Board will not be able to meet all cash outflow obligations as they come due. The Board mitigates this risk by monitoring cash activities and expected outflows. The Board's current liabilities arise as claims are made. The Board does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Board has no material commitments for capital expenditure and there is no need for such expenditures in the normal course of operations. Claim payments are funded by current operating cash flow including investment income.

There have been no significant changes from the previous year in the exposure to risk or policies, procedure and methods used to measure the risk.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

6. Property and equipment

Accounting Policy

Property and equipment are reported at cost less subsequent depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to their acquisition or construction and any other cost directly attributable to the installation and decommissioning of the asset. Property and equipment are depreciated over their estimated lives on the straight line basis. Assets are depreciated at 50% of the applicable rate in the year of acquisition. When parts of an item of property and equipment have materially different useful lives or patterns of benefit consumption, they are accounted for separately (i.e., as major components). The rates used are as follows:

| | |
|--------------------------|-------------------------------|
| Buildings and components | 10 to 40 years, straight line |
| Furniture and fixtures | 10 years, straight line |
| Computer equipment | 5 years, straight line |

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

IAS 36, Impairment of Assets, requires an entity to test assets for impairment if indications of impairment exist. Based on an analysis of cash flows, the Board has established that the appropriate cash generating unit for impairment review is the entire entity. As the Board has the statutory power under the Act to increase premiums and/or impose levies to ensure full funding unto the foreseeable future, impairment at the entity level is remote. As at December 31, 2013, management conducted an impairment review at the entity level, which confirmed that there were no significant indicators of impairment which would have a material impact on the Board's ability to generate future economic benefits from its operating non financial assets.

| Gross carrying amount | Land | Buildings | Furniture & Fixtures | Computer Equipment | 2013 Total |
|------------------------------|-------------------|-------------------|----------------------|--------------------|---------------------|
| Balance January 1, 2013 | \$ 368,460 | \$ 1,746,371 | \$ 443,763 | \$ 543,334 | \$ 3,101,928 |
| Additions | - | 77,172 | - | 31,637 | 108,809 |
| Disposals | - | - | - | (21,930) | (21,930) |
| Balance December 31, 2013 | 368,460 | 1,823,543 | 443,763 | 553,041 | 3,188,807 |
| Depreciation and impairment | | | | | |
| Balance January 1, 2013 | - | (851,406) | (389,663) | (350,037) | (1,591,106) |
| Disposals | - | - | - | 20,499 | 20,499 |
| Depreciation | - | (58,712) | (10,612) | (88,399) | (157,723) |
| Balance December 31, 2013 | - | (910,118) | (400,275) | (417,937) | (1,728,330) |
| Carrying amount Dec 31, 2013 | <u>\$ 368,460</u> | <u>\$ 913,425</u> | <u>\$ 43,488</u> | <u>\$ 135,104</u> | <u>\$ 1,460,477</u> |

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

6. Property and equipment (cont'd)

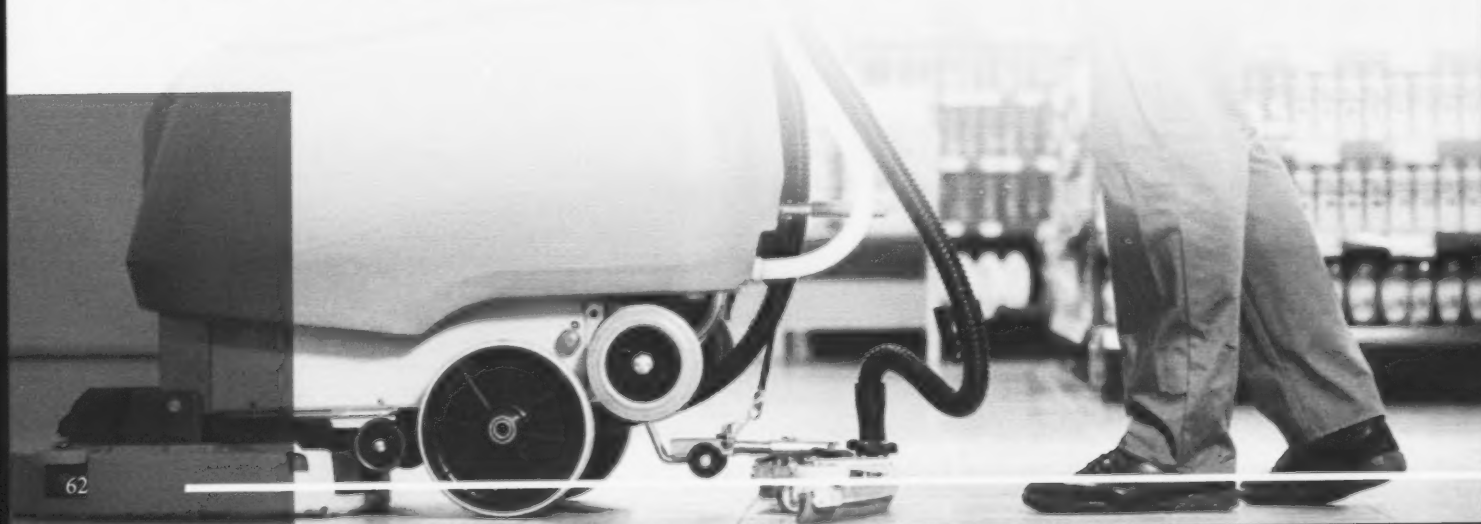
| | <u>Land</u> | <u>Buildings</u> | <u>Furniture & Fixtures</u> | <u>Computer Equipment</u> | <u>2012 Total</u> |
|-------------------------------------|-------------------|-------------------|-------------------------------------|-------------------------------|-----------------------|
| Gross carrying amount | | | | | |
| Balance January 1, 2012 | \$ 368,460 | \$1,686,181 | \$ 425,786 | \$ 522,489 | \$3,002,916 |
| Additions | - | 60,190 | 17,977 | 64,800 | 142,967 |
| Disposals | - | - | - | (43,955) | (43,955) |
| Balance December 31, 2012 | 368,460 | 1,746,371 | 443,763 | 543,334 | 3,101,928 |
| Depreciation and impairment | | | | | |
| Balance January 1, 2012 | - | (795,369) | (379,371) | (298,186) | (1,472,926) |
| Disposals | - | - | - | 41,541 | 41,541 |
| Depreciation | - | (56,037) | (10,292) | (93,392) | (159,721) |
| Balance December 31, 2012 | - | (851,406) | (389,663) | (350,037) | (1,591,106) |
| Carrying amount Dec 31, 2012 | \$ 368,460 | \$ 894,965 | \$ 54,100 | \$ 193,297 | \$1,510,822 |

7. Intangible assets

Accounting Policy

Computer software development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and the Board has the intention and sufficient resources to complete development and to use the asset. Computer software assets are derecognized when these factors no longer exist. The capitalized expenditure includes the direct cost of materials and labour, but not administrative costs, including training. Other development expenditures are expensed as incurred if they do not meet the prescribed capitalization criteria. Similarly, costs associated with maintaining computer software programs in a functional condition, as originally intended, are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

The Board's intangible assets are comprised of computer software developed internally or acquired through third party vendors and customized as necessary. These costs are accounted for using the cost model whereby capitalised costs are amortized on a straight line or declining balance basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing.



Workers Compensation Board of Prince Edward Island **Notes to the financial statements**

December 31, 2013

7. Intangible assets (cont'd)

Internally developed software is amortized on a straight line basis over 10 years for certain software and 3 years for other smaller software programs.

Computer software

Gross carrying amount

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|------------------|------------------|
| Balance at January 1 | \$ 4,215,759 | \$ 4,025,562 |
| Addition, separately acquired | 102,316 | 199,131 |
| Disposal | - | (8,934) |
| Balance at December 31 | <u>4,318,075</u> | <u>4,215,759</u> |

Amortization and impairment

| | | |
|------------------------|--------------------|--------------------|
| Balance at January 1 | (2,337,150) | (1,933,778) |
| Disposal | - | 5,807 |
| Amortization | <u>(424,252)</u> | <u>(409,179)</u> |
| Balance at December 31 | <u>(2,761,402)</u> | <u>(2,337,150)</u> |

| | | |
|-----------------------------|---------------------|---------------------|
| Carrying amount December 31 | <u>\$ 1,556,673</u> | <u>\$ 1,878,609</u> |
|-----------------------------|---------------------|---------------------|

8. Bank indebtedness

The Board has a \$500,000 unsecured operating line of credit of which nil was used at December 31, 2013.

9. Payables and accruals

| | <u>2013</u> | <u>2012</u> |
|--------------------------|---------------------|---------------------|
| Accrued staff salaries | \$ 145,474 | \$ 125,198 |
| Accrued vacation pay | 182,498 | 188,762 |
| Trade and other payables | <u>3,429,368</u> | <u>2,448,209</u> |
| | <u>\$ 3,757,340</u> | <u>\$ 2,762,169</u> |

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

10. Employee benefits

Accounting policy

On January 1, 2013, the Board adopted amended IAS 19 Employee Benefits.

Permanent employees of the Board participate in a defined benefit pension plan sponsored by the Province of Prince Edward Island. As these multi-employer plans meet the accounting requirements for treatment as defined contribution plans, the current year employer contributions are accounted for as current pension expense. The cost of retirement pay benefits earned by employees is actuarially determined using the projected unit credit method prorated on service. Benefits are projected with management's best estimate of salary escalations to retirement and then pro-rated based on service. Remeasurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

Short term benefits

The Board's short term benefits for qualified active employees include base salary, compensated absences, group life insurance, dental and medical coverage.

Pension plan

The Board and its employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of Prince Edward Island under the Civil Service Superannuation Act. The Civil Service Superannuation Fund provides pensions to employees of the Provincial Government and certain Crown Corporation and agencies based on the length of service and average of best three year's salary. The plans are similar to state plans as defined in IAS 19 whereby they are established by legislation to provide retirement benefits for eligible provincial employees. State plans share similar characteristics as multi-employer plans and are treated as defined contribution plans under IAS 19. For these plans, the Board has no further payment obligations once the contributions have been paid. Since sufficient information is not readily available to account for the Board's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans. The current year expense for this pension plan is \$394,000 (2012: \$340,269). As the Board maintains no obligation to cover funding deficiencies within the plan, should any exist, there are no provisions to be recorded for future funding obligations.

At March 31, 2013, the Civil Service Superannuation Fund reported plan deficiencies of \$136,526,000 or 90% funded.

Retirement pay benefits

The Board provides a retirement pay benefit equal to one weeks pay for each year of service, subject to a maximum benefit equal to 26 weeks pay. The retirement pay benefit is payable upon retirement. Unionized employees qualify at retirement if they have accrued 10 years of service and attained age 55. Non-unionized employees qualify at retirement if they have accrued 5 years of service and attained age 55, accrued 30 years of service, or accrued 5 years of service and die or become disabled. The significant actuarial assumptions adopted in measuring the Board's accrued retirement pay benefits obligations are a discount rate of 4.2% (2012 - 3.4%) and a rate of compensation increase of 3.5%. The retirement pay benefits liability has been estimated to equal \$1,395,000 (2012 - \$1,353,000) based on the last actuarial calculation as of December 31, 2013.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

10. Employee benefits (cont'd)

Other information about the Board's retirement pay benefits is as follows:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|---------------------|---------------------|
| Opening retirement pay benefits | \$ 1,353,000 | \$ 1,196,000 |
| Current service plus interest | 140,996 | 94,766 |
| Change in actuarial assumption | (98,996) | 62,234 |
| Ending retirement pay benefits | <u>\$ 1,395,000</u> | <u>\$ 1,353,000</u> |

Employee benefits risks

The Board's defined benefit plan is indirectly exposed to economic risks with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to uncertainty of the timing of the payments.

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates.

The Board is also exposed to funding risk in the multi employer plans arising from legislative changes affecting eligibility for and amount of pension and related benefits and performance of plan assets affected by investment policies set by the government. Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind up or amendments, and funding requirements.

11. Benefits liabilities

The benefits liabilities represent the actuarial present value of all future benefit payments expected to be made for claims which occurred in the current fiscal year or in any prior year. The benefits liabilities include provision for all benefits provided by current legislation policies and administrative practices in respect of existing claims.

The Board believes that the amount provided for benefit liabilities as at December 31, 2013, is adequate, recognizing that actuarial assumptions as disclosed below may change over time to reflect underlying economic trends. When they do, it is possible to cause a material change in the actuarial present value of the future payments.

Benefits liabilities as at December 31, 2013, have been independently valued by the Board's external actuary. Benefits liabilities include a provision for all benefits provided by current legislation, Board policies, and administrative practices. These liabilities also include a provision for future expenses of administering those benefits. Benefits liabilities do not include a provision for benefits costs of self-insured employers.

Since the benefits liabilities of the Board are of a long term nature, the actuarial assumptions and methods used to calculate the reported benefits liabilities are based on considerations of future expenses over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

11. Benefits liabilities (cont'd)

In February 2011, the ASB issued new standards of practice for workers' compensation organization that requires their valuations to include an allowance for all recognized latent occupational disease claims expected to arise in the future as a result of past exposures. This specific requirement is mandatorily effective for valuation dates on and after December 31, 2014, but early adoption is permitted. The standards of practice require estimation of occupational disease liabilities based on when the workplace exposure to agents that cause such diseases occurs instead of when the disease manifests itself and the claim is accepted. WCB should consider this to be a significant change in the existing method for estimating occupational disease liabilities.

The Board previously disclosed latent occupational diseases as a contingent liability as the liability could not be reasonably estimated. The Board has now estimated a provision related to the occupational diseases and has concluded that this is a change in estimate per IAS 8 and has applied the change prospectively in accordance with that standard. The cumulative impact on the benefit liabilities is \$6,967,000, which is fully recognized in the current period.

The Workers' Compensation Act of Prince Edward Island has been amended during the year. The amended legislation has three key financial changes. The wait period for benefits have been reduced from 3 days to 2 days, the wage loss benefit has been increased from 80% to 85% of net insurable earnings and the indexing of benefits has been increased from 75% to 80% of the Consumer Price Index. Management has estimated that the legislative changes have increased benefits liabilities by \$1,490,000 as of December 31, 2013. The Board has considered the legislative changes as changes in assumptions and have applied them on a prospective basis.

Key actuarial assumptions

Important components of the benefits liabilities are long term in nature, meaning that many claims continue in payment for many years following the accident.

The independent consulting actuary makes significant estimates and judgments in respect of certain liability amounts disclosed in the financial statements and the discount rates used to calculate the present value of future benefit payments. These estimates and judgments are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modeling techniques.

The key areas of significant estimates and judgments and the methodologies used to determine key assumptions are set out below.

A provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date. This provision includes the cost of claims incurred but not reported to the Board.

The estimation of outstanding benefits liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. The process commences with the actuarial projection of the future claims payments and administration costs incurred to the reporting date. The various payment codes of the Board are grouped into a number of benefit categories and analyzed separately.

Modeling approaches are used to analyze and project the various benefit types. These approaches fall into three broad categories, which are as follows:

- Payments per claim for active long-term wage loss, pension and survivor claims;
- Projected payments based on past payment patterns for short-term disability, health care and the first seven years for long-term disability awards;
- Estimated average benefit payments per claim for projected future long-term wage loss and physical impairment awards.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

11. Benefits liabilities (cont'd)

Projected future claims payments and associated administration costs are obtained by examining the results from the above methods. This projection is made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding benefits liabilities that has an approximately equal chance of proving adequate as not.

The projected future claims payments are converted to inflated values, taking into account assumptions about future inflation. The present value of this liability is then calculated, by discounting the inflated cash flows to allow for future returns on the underlying assets using appropriate discount rates. Both implicit and explicit assumptions are made for future inflation. For the first fifteen years of the projection period for short-term disability, health care and the first seven years for long-term disability awards, the future inflation is implied in the development factors. Explicit future inflation assumptions are used for all other liability estimates.

The table below presents key assumptions used to determine the benefits liabilities.

| | <u>2013</u> | <u>2012</u> |
|-----------------------|-------------|-------------|
| Gross rate of return | 6.5% | 6.5% |
| Real rate of return | 3.5% | 3.5% |
| Increase in inflation | 3.0% | 3.0% |
| Future administration | 6.5% | 6.5% |

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

General Statement

Assumptions are formulated to be consistent with the funding and investment policies adopted by the Board. Benefits liabilities are valued based on the primary assumption that the system will be in operation for the very long term. Hence, the focus is on long-term trends as opposed to short-term fluctuations around those trends.

Gross rate of return

The gross rate of return reflects the best estimate of the long-term average rate of return that can be expected using the benchmark asset allocation adopted by the Board in its statement of investment policies and beliefs. The process is based on the estimate of a real rate of return that is then compounded with the long-term average future inflation estimate to obtain the gross rate of return.

Future awards liabilities

For the purposes of projecting future cash flows for the future award liabilities, other than those for future extended wage loss awards, the calculation uses a weighted average of payments made over the 2011 to 2013 period. The weightings are 33% of 2011, 50% of 2012 and 50% of 2013, all adjusted to constant 2013 dollars. In the case of medical aid and hospital expenses, certain large individual cases that are expected to require long term care have been removed from historical data. For these cases, the ongoing payments have been estimated based on an analysis of the individual file.

Pension in pay

The liabilities in respect of pensions and extended wage loss awards, including survivor benefits that are already in payment, are included in this category. Cash flows, in respect of these categories have been projected on an individual claimant basis using mortality as the only decrement. No provision for termination of benefits from other causes such as recoveries has been made. To the extent such terminations occur, there will be a gain.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

11. Benefits liabilities (cont'd)

Future extended wage loss awards

Included in the valuation is a provision for future extended wage loss awards. A claims run off table has been developed based in part on the Board's limited experience with respect to wage loss claims. This table is used to predict the emergence of future extended wage loss claims. The table was developed using a run off table used by another Board with legislation similar to Prince Edward Island's with experience modifications noted in Prince Edward Island as compared to the other jurisdiction.

Future administration

When a claim occurs, it triggers an obligation to provide claims management, maintenance and support in terms of paying the various providers of health care services and compensating workers for lost wages for as long as the claim is open. The future administration expense liability is intended to provide a reasonable allowance for this obligation. A detailed review of future administration expenses is conducted periodically. In this review an estimate is made of the portion of operating expenses that can be attributed to claims maintenance, including a proportionate share of overhead expenses. Based on this review, a liability for future administration expenses of 6.5% of the total benefits liability is included in the liability estimate.

An analysis of the components of and changes in benefits liabilities is as follows:

| | Temporary wage loss | Pension and extended wage loss | Health care | Rehabilitation | Administration | 2013 Total | 2012 Total |
|--|---------------------------|--------------------------------------|----------------|----------------|----------------|-------------------|-------------------|
| Balance, beginning of year | \$ 9,109,000 | \$ 97,252,000 | \$ 33,554,000 | \$ 2,486,000 | \$ 9,256,000 | \$ 151,657,000 | \$ 149,810,000 |
| Expected increase | 565,000 | 6,276,000 | 2,163,000 | 158,000 | 595,000 | 9,757,000 | 9,624,000 |
| Legislative changes | 269,000 | 1,113,000 | - | 17,000 | 91,000 | 1,490,000 | - |
| Experience (gains) losses | 1,981,000 | (3,672,000) | (2,712,000) | (271,000) | (304,000) | (4,978,000) | (4,254,000) |
| | 11,924,000 | 100,969,000 | 33,005,000 | 2,390,000 | 9,638,000 | 157,926,000 | 155,180,000 |
| Costs incurred | 6,164,000 | 6,739,000 | 6,045,000 | 549,000 | 1,268,000 | 20,765,000 | 20,070,000 |
| | 18,088,000 | 107,708,000 | 39,050,000 | 2,939,000 | 10,906,000 | 178,691,000 | 175,250,000 |
| Less: Payments made | (7,003,000) | (8,137,000) | (6,609,000) | (669,000) | (1,457,000) | (23,875,000) | (23,593,000) |
| Costs incurred: Latent occupational diseases | - | - | - | - | - | 6,967,000 | - |
| Balance, end of year | \$11,085,000 | \$ 99,571,000 | \$ 32,441,000 | \$ 2,270,000 | \$ 9,449,000 | \$ 161,783,000 | \$ 151,657,000 |

Benefit liabilities of self-insured employers are not included in the benefits liability. These liabilities will be borne by those employers when paid in the future years. They do not add to the Board's liabilities on its net fund balance.

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

11. Benefits liabilities (cont'd)

Current year injuries

| | 2013 | | |
|-------------------------|----------------------|----------------------------------|--------------------------|
| | Current Year Cost | Present value of future costs | Total incurred claims |
| Health care | \$ 1,703,000 | \$ 4,342,000 | \$ 6,045,000 |
| Temporary wage loss | 2,131,000 | 4,374,000 | 6,505,000 |
| Rehabilitation | - | 560,000 | 560,000 |
| Lump sums | 41,000 | 291,000 | 332,000 |
| Future permanent awards | - | 6,514,000 | 6,514,000 |
| Administration | 252,000 | 1,045,000 | 1,297,000 |
| Total | \$ 4,127,000 | \$17,126,000 | \$21,253,000 |

Prior year injuries

| | 2012 | | |
|-------------------------|----------------------|----------------------------------|--------------------------|
| | Current Year Cost | Present value of future costs | Total incurred claims |
| Health care | \$ 1,740,000 | \$ 4,069,000 | \$ 5,809,000 |
| Temporary wage loss | 2,208,000 | 3,540,000 | 5,748,000 |
| Rehabilitation | - | 551,000 | 551,000 |
| Lump sums | 15,000 | 284,000 | 299,000 |
| Future permanent awards | - | 6,263,000 | 6,263,000 |
| New permanent awards | 19,000 | 156,000 | 175,000 |
| Administration | 259,000 | 966,000 | 1,225,000 |
| Total | \$ 4,241,000 | \$15,829,000 | \$20,070,000 |



Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

11. Benefits liabilities (cont'd)

Reconciliation of movement in benefits liabilities

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------|-----------------------|
| Balance, beginning of the year | \$ 151,657,000 | \$ 149,810,000 |
| Interest on liability | 9,757,000 | 9,624,000 |
| Legislative changes | 1,490,000 | - |
| Payments and other transitions | <u>(23,875,000)</u> | <u>(23,593,000)</u> |
| Balance, end of year for prior accident years | 139,029,000 | 135,841,000 |
| Impact of experience losses (gains) on change in liability for prior accident years due to: | | |
| Mortality and termination | (400,000) | (2,300,000) |
| Award inflation less than expected | (1,400,000) | (400,000) |
| New awards | (2,600,000) | (3,900,000) |
| Change in outstanding provision | - | (400,000) |
| Change in expected claim run-off | (1,200,000) | 2,700,000 |
| Difference between actual and expected payments | 500,000 | 1,400,000 |
| Legislative changes | 1,400,000 | - |
| Other | <u>(1,278,000)</u> | <u>(1,354,000)</u> |
| Total change in liability | (4,978,000) | (4,254,000) |
| Assumption of latent occupational diseases liability | 6,967,000 | - |
| Liability for new accidents | <u>20,765,000</u> | <u>20,070,000</u> |
| Balance, end of year | <u>\$ 161,783,000</u> | <u>\$ 151,657,000</u> |

December 31, 2013

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Board's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

In 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2006 is required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included.

[illegible]

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

11. Benefits liabilities (cont'd)

Claims risk

Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work related injuries, the Board bears risk with respect to its future claims costs, which could have material implications for liability estimation. In determining the Board's claim benefit liabilities, a primary risk is that the actual benefits payments may exceed the estimation of the amount of the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims. Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claim run off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

Sensitivity of actuarial assumptions

The benefits liabilities are determined by using many actuarial assumptions. The two most significant assumptions are the real rate of return and inflation rate. The liability estimates are highly sensitive to small changes in these assumptions. The following table presents the sensitivity of the liabilities to the following change in the real rate of return and inflation rate:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------------|----------------------|----------------------|
| 1% Decrease in real rate of return | <u>\$12,126,000</u> | <u>\$11,581,000</u> |
| 1% Increase in inflation | <u>\$(1,002,000)</u> | <u>\$(1,298,000)</u> |
| 0.25% Decrease in real rate of return | <u>\$ 2,882,000</u> | <u>\$ 2,752,000</u> |
| 0.50% Decrease in real rate of return | <u>\$ 5,860,000</u> | <u>\$ 5,591,000</u> |

12. Self-insured employers

These financial statements include the effects of significant transactions carried out for self-insured employers, principally the Government of Canada, who directly bear the costs of their own incurred claims and an appropriate share of administration expenses. Administrative fees and interest charges are included within the schedule of administrative expenses (page 30). Total amounts of assessment revenue and offsetting expenses included in the statements of operations and operating surplus are as follows:

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| Current assessment revenue | <u>\$ 1,041,314</u> | <u>\$ 1,054,525</u> |
| Administration fees and interest charges recoverable | <u>335,667</u> | <u>346,573</u> |
| | <u>\$ 1,376,981</u> | <u>\$ 1,401,098</u> |
| Claims costs incurred | | |
| Short term disability | <u>\$ 241,527</u> | <u>\$ 205,957</u> |
| Long term disability | <u>489,429</u> | <u>544,685</u> |
| Health care | <u>280,012</u> | <u>297,433</u> |
| Rehabilitation | <u>30,346</u> | <u>6,450</u> |
| | <u>1,041,314</u> | <u>1,054,525</u> |
| Administration fees and interest charges | <u>335,667</u> | <u>346,573</u> |
| | <u>\$ 1,376,981</u> | <u>\$ 1,401,098</u> |

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

13. Funding strategy and capital management

In 2002, the Board implemented a funding strategy to address retirement of the unfunded liability as at December 31, 2001. In recognition of the significant improvement in the Board's financial position under this strategy (2002 – 2006), the Board replaced this funding strategy with a funding policy (POL 136) which recognizes current funding levels and is aimed at maintaining a financial position of fully funded.

Fully funded means the total assets of the Board are equal to or greater than the total liabilities.

The funding policy will target a funding status in the range of 100% - 110% and includes specific adjustments to be applied to the assessment rate setting process should the funding status fall outside this range. This permitted excess of assets over liabilities reduces the impact of year to year fluctuations, therefore, providing assessment rate stabilization and enhanced security that awarded benefits will be met.

Although, per IFRS 9 – Financial Instruments: Classification and Measurement, investments have been recorded in the financial statements using the fair value method, investment revenue for funding policy purposes continues to be recorded using the smoothing method. Under the smoothing method, gains or losses realized on disposal of fixed term investments are deferred and amortized on a straight line basis over a nine year period. Realized and unrealized gains and losses on equity investments are deferred and amortized on a straight line basis over a four year period. The use of the smoothing method for funding policy purposes continues to be in effect to reduce the volatility of investment returns on assessment rates as per the goals of the funding policy.

Investment reconciliation to the smoothing method

January 1, 2013 balance

\$ 17,773,188

2013 adjustment to record revenue using the smoothing method

15,412,729

\$ 33,185,917

Fund balance based on investment smoothing

Fund balance as currently reported

\$ 58,877,783

Adjustment to record revenue using the smoothing method

(33,185,917)

Fund balance based on investment smoothing

\$ 25,691,866

Asset total based on investment smoothing

Total assets as currently reported

\$ 225,813,123

Adjustment to record revenue using the smoothing method

(33,185,917)

Asset total based on investment smoothing

\$ 192,627,206

Total liabilities as currently reported

\$ 166,935,340

Funding status as per funding policy (percentage based on investment smoothing):

115.4%

Workers Compensation Board of Prince Edward Island

Notes to the financial statements

December 31, 2013

14. Legislative obligations and other related party transactions

Included in these financial statements are transactions with various Prince Edward Island crown corporations, departments, agencies, and Boards related to the Board by virtue of common influence by the Government of Prince Edward Island. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

The Board is required by the *Workers Compensation Act* (the Act) to provide an annual grant to the Workers' Advisor Program. The Workers' Advisor Program operates autonomously from the Board and assists workers or dependants of workers in respect of claims for compensation. During the year, the Board paid \$162,776 (2012 - \$157,759) of the Program's expenses.

The Board is required by the Act to provide an annual grant to the Employers' Advisor Program. The Employers' Advisor Program operates autonomously from the Board and assists employers in respect of classifications, assessments and claims for compensation. During the year, the Board paid \$120,188 (2012 - \$120,297) of the Program's expenses.

The Board is required by the Act to pay the operating costs of the Appeals Tribunal. During the year, the Board paid \$135,198 (2012 - \$134,435) to cover the operating costs of the Tribunal.

The table below presents total compensation of the key management group, which includes the Board of Directors and senior executive staff.

| | <u>2013</u> | <u>2012</u> |
|------------------------------|-------------------|-------------------|
| Short term employee benefits | \$ 666,202 | \$ 665,157 |
| Post employment benefits | <u>69,177</u> | <u>63,009</u> |
| | <u>\$ 735,379</u> | <u>\$ 728,166</u> |

Workers Compensation Board of Prince Edward Island

Schedule of administration expenses

Year ended December 31

| | 2013 | 2012 |
|---|---------------------|---------------------|
| Building operating costs | \$ 176,211 | \$ 193,421 |
| Communications, printing and supplies | 134,532 | 155,772 |
| Computer maintenance | 302,007 | 369,190 |
| Depreciation | 581,974 | 568,911 |
| Dues and fees | 82,018 | 67,735 |
| Interest and bank charges | 132,474 | 115,771 |
| Miscellaneous | 45,393 | 58,750 |
| Postage | 81,420 | 72,858 |
| Professional development | 67,892 | 63,807 |
| Professional fees | 937,740 | 929,232 |
| Salaries | | |
| Board members | 105,871 | 116,978 |
| Staff members | 4,827,317 | 4,779,147 |
| Benefits | 903,416 | 821,568 |
| Retirement benefits (Note 10) | 140,996 | 159,809 |
| Telephone | 97,171 | 89,096 |
| Travel | 208,086 | 242,614 |
| | <u>8,824,518</u> | <u>8,804,659</u> |
| Less allocation to benefits liabilities (Note 11) | <u>(1,457,000)</u> | <u>(1,440,000)</u> |
| | <u>\$ 7,367,518</u> | <u>\$ 7,364,659</u> |



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Workers Compensation Board of PEI

2013

Annual Report

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